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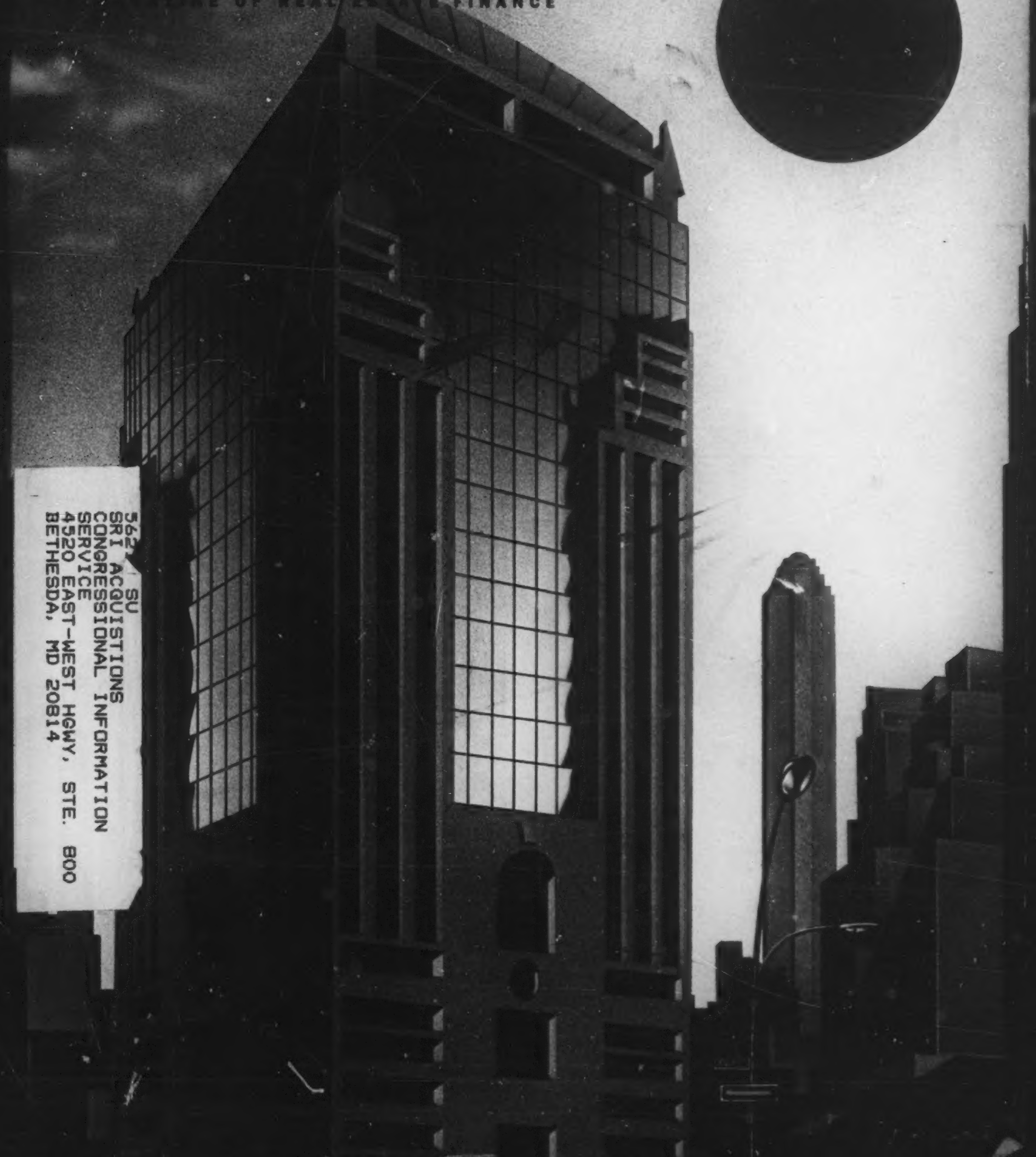
THE MAGAZINE OF REAL ESTATE FINANCE



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THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 48 NUMBER 2

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Art Director
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Art Production
LINDA M. ROLLA

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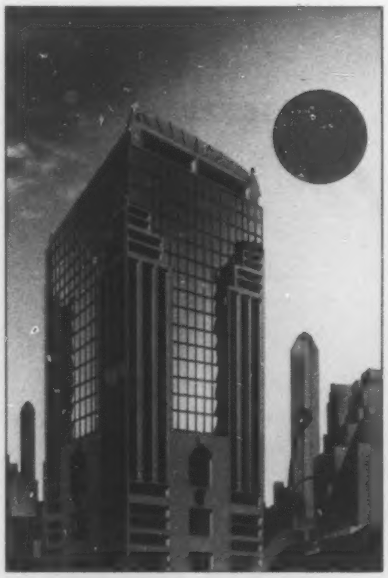

THE COVER

The Japanese rising sun is shining brightly on commercial real estate in the United States, particularly first-class office buildings as depicted on this month's cover. This year may well be remembered as the year the Japanese invaded the U.S. real estate market. Investors from the Pacific Rim invested close to $3 billion in real estate last year and are expected to double their efforts this year. The impact of this foreign infiltration into income property is highlighted in "Japanese Investors Yen for Commercial Real Estate: A New Avenue for Commecial MBS?" on page 42 and "Commercial Real Estate Finance: How Will the Deep Pockets Invest?" on page 55.

LaDonna Hale Curzon
Assistant Editor

THE ARTIST

The acrylic airbrush illustration on this month's cover was the work of Byron Peck, who specializes in trompe l'oeil work. His work has been published in numerous publications including *Psychology Today, The Washington Post* and *The Washingtonian* magazine. He works out of his studio in Washington, D.C. and has been involved in several exhibitions in New York and Washington.

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Key Congressional Staff Members Answer Housing Questions

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The inability to meet low-income housing needs is not a problem of resources; it is primarily a political problem. An examination of the obstacles to low-income housing is required if a consensus is to be developed and the problem faced.

Achieving a Consensus

THE POLITICS OF LOW-INCOME HOUSING

Cushing N. Dolbeare

Consensus is rare indeed in housing circles, but the growing low-income housing crisis, most visibly expressed in the dramatically increasing number of homeless families; massive cutbacks in federal support for additional low- income housing; and continuing increases in actual expenditures for housing assistance has led to general accord that new approaches are in order. The Senate Housing Subcommittee, under the leadership of Senator Alan Cranston, is actively seeking to create a new consensus on the outlines of major housing legislation to be introduced next year.

Achieving consensus on what should be done requires reaching agreement on the nature and extent of the problem, on the appropriate role of the federal government, and on the scale and scope of measures required to realize the promise of decent, affordable housing for the millions of people who now find it beyond their grasp.

Analysis of housing needs in this country suggests two basic roles for the federal government. The first is to create an institutional framework to enhance the private sector's capacity to provide and finance housing. Carrying out this role effectively can both add to and improve the housing stock and expand the number of people who can afford it. However, perhaps half of all renter households,[1] plus a substantial number of owners, do not have the means to obtain decent housing under current or foreseeable market conditions. The second major federal role, and the focus of this analysis, is to furnish the assistance necessary to enable them[2] to obtain decent housing.

There is simply no way that the private sector, unaided, can meet the minimum housing needs of people whose incomes are below or near the poverty level. Indeed, utility and other operating costs have long been so high that a substantial number of poor households in this country find that these costs alone are more than they can afford, even if their housing were provided free of charge.[3] Moreover, the states and localities with the highest numbers of poor people are generally those least able to bear the substantial costs involved in providing access to decent, affordable housing. The solution to what has become a low-income housing crisis, therefore, will require federal funds, and the creation of more effective and responsive federal housing programs.

Approaching this task requires, first of all, realism. Here, however, the realism of what is required to provide all low-income people with access to decent, affordable housing conflicts with the realism of our present politico-economic situation: the deficit and the constraints of the Gramm/Rudman Act and the budget process on the one hand, and the cost of meeting low-income housing needs on the other, make it unrealistic at this time to expect federal support on the scale necessary. These constraints cannot be overcome without a sound overall program, developed with an awareness of the factors that have in the past made it so difficult to obtain support for low-income housing programs.

Understanding present needs and trends is basic to framing new housing programs. Here, it is important to distinguish between housing inconveniences (housing of the "right" size, location, or cost is not available, but the family can meet its minimum housing requirements without sacrificing other basic necessities) and housing needs (the inability to obtain any housing that meets minimum standards of decency without sacrificing other necessities). Given the limitations on resources available for housing, there should be clear consensus that federal housing assistance programs should focus on needs, not inconveniences.

In 1982, President Reagan's Commission on Housing made a careful, though conservative, estimate of housing need. The Commission found that in 1980 there were about 20 million households with incomes below 50 percent of median. Half were renters. One quarter of these renters lived in subsidized housing.[4] Almost all the rest live in housing that was substandard or unaffordable, or both. Subtracting the 2.5 million very low-income households in subsidized housing from the 10 million total leaves 7.5 million households still needing assistance. In other words, after more than 40 years of federal low-income housing programs, for each very low-income household living in subsidized housing, there were three others who needed it, but for whom it did not exist.

The Bureau of the Census recently released estimates of the number of low-income renters in 1985. Using the current standard that rents, including utilities, should not exceed 30 percent of income, there were 4.2 million renter households unable to afford more than $125 per month for gross rent and another 5.8 million with an affordable gross rent range of $125-$250. This is almost one-third (31 percent) of all renter households in the U.S. Only 40 percent of all renter households could afford rents of $500 monthly or more.[5]

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At current levels, it will take 75 years or more to meet the low-income housing need estimated by the Reagan Administration's Housing Commission in 1982.

Ironically, although the years since 1970 have seen the amount of occupied subsidized housing more than quadruple, from 1 million units to more than 4 million currently, the problem is far worse now than it was then. In the first place, a substantial number of the subsidized units were intended for moderate-income households, not those at the bottom of the income scale. More important, except for subsidized housing, affordable units have disappeared for people with incomes below $5,000 (who can afford less than $125 for rent and utilities).

Between 1970 and 1983,[6] the number of units renting for less than $125 per month dropped from 14.9 million to 2.0 million, while the number of renter households with incomes below $5[illegible]pped from 8.4 million to 5.5 [illegible]her words, we lost affordable units at the rate of a million a year from the inventory, roughly four times the reduction in these very low-income households. As a result, the overall ratio of households to affordable units was reversed: in 1970, there had been two affordable units somewhere in the nation's housing stock for each household with an income below $5,000; by 1983, there were two households for each affordable unit.[7]

Compensating for the impact of inflation by recalculating the changes in constant 1983 dollars changes the numbers, but not the reality of the constantly worsening low-income housing crisis. This calculation shows that between 1970 and 1983 the number of households with incomes under $5,000 grew by 125,000 units annually, while the number of units renting for less than $125 dropped by 125,000 units annually. (See graph 1)

Clearly, the prospects of very poor people obtaining satisfactory housing are dimmer than ever, and will remain so until additional housing assistance is provided.

For years, efforts to improve low-income housing programs have been crippled by a myth: the public perception that for decades the federal government has poured huge resources into massive low-income housing programs, and the problem is that these programs have not worked and that housers do not know how to cope. This myth is the major political obstacle to decent housing. The facts are that, even with the faults of past efforts to deal with low-income housing, if huge resources had been provided, we would not face the situation we are in today. Instead, outlays for federal housing assistance have generally been 1 percent or less of the total federal budget. It was not until 1984 that they reached the 1 percent level.[8] Indeed, all federal spending for all the subsidized housing payments HUD and its predecessor agencies have made from the occupancy of the first public housing developments in the late 1930s through fiscal 1986,[9] including operating subsidies for public housing, totalled $86 billion, $3 billion less than housing-related tax expenditures in 1985 and 1986 alone.

Despite a series of cutbacks under the Carter Administration from the level of additional assisted housing units provided under the Ford Administration, more than $30 billion in budget authority for the Department of Housing and Urban Development (HUD)-subsidized low-income housing had been appropriated by Congress for fiscal 1981, when President Reagan took office. That was estimated to support an additional 250,000 low-rent units. Moreover, more than half (55 percent) were new or substantially rehabilitated units, thus adding to the nation's stock of needed rental housing.

Since then, we have seen a dramatic reduction of the budget authority available for expanding low-income housing efforts, a doubling of outlays as additional units, many of them committed in prior years, became available, and an increase in housing-related tax expenditures as great as total outlays for housing assistance.[10]

Moreover, these figures do not show the shift from subsidizing units, which remain part of low-income stock, to subsidizing households in a finders-keepers system, which does not add to the stock of permanently affordable housing, although it permits more households to be assisted in the short run with a given amount of funds.

This pattern of change has further skewed the already regressive distribution of federal housing subsidies, including tax expenditures, away from meeting housing needs and toward alleviating housing inconveniences. Significantly, three quarters of housing-related tax expenditures go to people in the top 15 percent of the income distribution. If housing assistance for low-income people were increased by half this amount, it would make it possible to fund a comprehensive program of housing allowances and housing preservation, rehabilitation and construction efforts.

Clearly, our inability to meet low-income housing needs is not a problem of resources. Instead, it is primarily a political problem. Therefore, it is unrealistic to expect to develop a consensus on dealing with low-income housing without examining and dealing with, or compensating for, the political obstacles to decent housing.

These obstacles fall into three major categories: external factors and constraints; problems that arise from the nature of low-income housing programs themselves; and problems of building a politically effective constituency for low-income housing.

Three major external factors and constraints affect housing and other low-income programs. They are political demographics, the federal budget process and the way housing commitments are counted in this process, and the relative powerlessness of

CHART 1

	1970	1983	Change
Households	3.9	5.5	1.6
Units	5.6	3.5	−1.6
Gap/surplus	1.2	−2.0	−3.2

GRAPH 1

Renters and Units at 30% of Income
In 1983 Constant Dollars

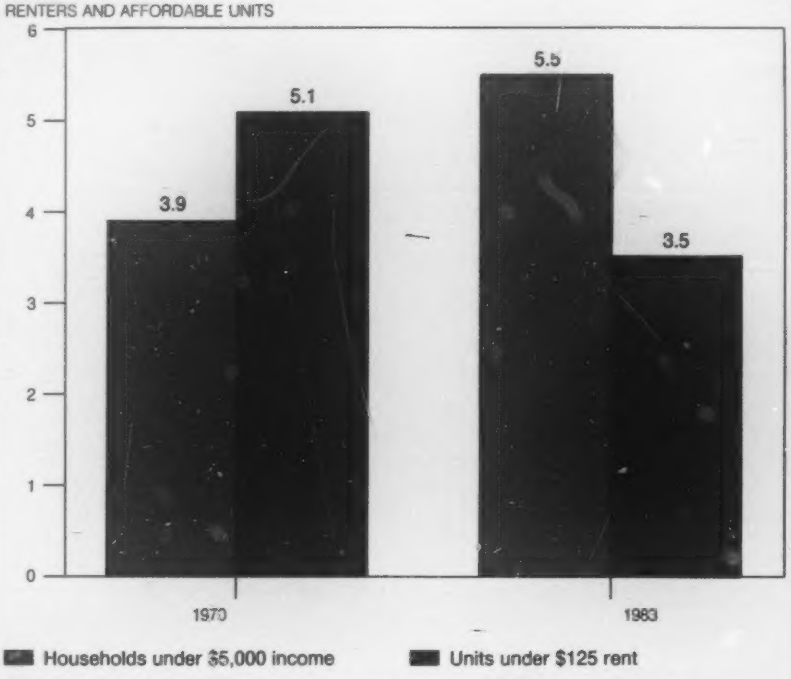

CHART 2

Year	Units (thousands)			Federal spending (billions)		
	HUD	FmHA	All	BA	Outlays	Tax exps
1981	217	104	321	30.2	5.7	33.3
1982	36	95	131	17.7	6.7	36.6
1983	−5	82	77	8.7	7.8	35.4
1984	75	77	152	9.9	8.8	37.9
1985	89	73	162	10.8	10.0	40.6
1986	83	54	137	9.7	10.0	48.5
1987	69	86	155	7.3	9.5	42.6

poor and minority people in this country.

Of these, the problem of political demographics may be hardest to overcome. A majority of Congress represent areas where low-income problems are not a major issue—and where the major housing concern of their constituents is generally how to keep other people out, particularly low-income and minority people. Thus, asking Members of Congress to vote for low-income housing is often asking them to vote against their own political interests. Indeed, there is much evidence that most Members of Congress are well ahead of what they hear from their constituents on low-income housing issues, though few are willing or able to do more than quietly cast their votes.

The combination of the congressional budget process, the way housing authorizations are counted in the federal budget (the maximum possible subsidy times the number of years of the subsidy commitment), and, finally Gramm-Rudman and the press of the deficit severely limits the possibility of major expansions in federal spending, even if the 1988 election brings about a dramatic change in the political philosophy of the administration. It is simply unrealistic to expect that we will soon again achieve the level of long-term low-income housing commitments made less than a decade ago. Major attention must, therefore, be given both to finding more affordable ways of making housing affordable for low-income people and to making the reasons for high program costs understandable and compelling.

The nature of housing programs also constitutes a major political obstacle. All too often, low-income housing has been perceived as something done to a community, not for it. Housing programs have not been regarded as responsive to neighborhood and community needs—often correctly so. Moreover, the gradual evolution of housing programs toward greater responsiveness has not been widely noted. Furthermore, even though many community groups have sought housing or community development funds for rehabilitation or housing improvement, the intensity of neighborhood opposition to low-income housing is almost always much higher than the intensity of advocacy.

Perhaps worse, it is in the nature of housing that our failures remain with us (unless, like Pruitt-Igoe in St. Louis, they are blown up), while our successes disappear into the fabric of the surrounding community. So, it is the failures and problems that people notice and remember. Moreover, it may take years for program changes and reforms to become visible. For example, high-rise public housing, except for the elderly, was prohibited in 1968, but for much of the ensuing decade projects which entered the pipeline before the law was passed were still being built and occupied.

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The nature of housing programs also constitutes a major political obstacle. All too often, low-income housing has been perceived as something done to a community, not for it.

In addition, many low-income housing programs do not make sense to non-housers. They are hard to understand and even when they are understood, they seem unreasonable. Most housing programs do not even have names, but, like Section 8, are numbers. That may be fine for those who know the jargon, but it hardly creates understanding.

Finally, there is a longstanding reluctance to face the cost implications of an adequate low-income housing program. Housers frequently seem to proceed from the premise that hidden costs are the best kind. As these costs have become visible, the credibility of housing program advocates has been undermined. Members of Congress and others familiar with the process have come to assume that any housing proposal will cost several times as much as its proponents assert. Surely, people with incomes at or above the median who are struggling with their housing inconveniences can comprehend the need for assistance for people with only a fraction of their resources if it is explained carefully and the programs proposed appear to make sense.

A strong, articulate constituency supporting low-income housing could overcome many of the foregoing obstacles. But prior to the establishment of the National Low-Income Housing Coalition (NLIHC) in the mid-1970s, there was a generation-long lack of an organized consumer and public-interest-based housing constituency. Although the coalition has helped substantially to fill this void, the housing "constituency" is often perceived on Capitol Hill as those who produce, finance or administer housing programs, not low-income people or advocates. Moreover, this is not an inaccurate perception of many housing groups. Several factors have prevented the growth of a powerful base of support for low-income housing efforts:

- Resources have not been available to service the constituency for housing that does exist or to represent it on Capitol Hill. The National Low-Income Housing Coalition, for example, though founded more than a decade ago, has not until this year had the wherewithal to place a fulltime lobbyist on its staff. Thus, while

Ironically, although the years since 1970 have seen the amount of occupied subsidized housing more than quadruple, from 1 million units to more than 4 million currently, the problem is far worse now than it was then.

NLIHC's credibility and leadership on low-income housing issues are widely respected, its impact has been severely limited.

- By and large middle class people do not recognize the extent to which they have received federal support and subsidies themselves, in the form of federal mortgage insurance and homeowner tax deductions, and they often feel threatened by low-income housing. The availability of Federal Housing Administration (FHA) and Veterans Administration (VA) insurance, plus the growth of auto transportation made possible the suburban expansion which followed World War II, thus creating many of the problems of the urban core, with poor and minority people left behind and increasingly cut off from education and employment opportunities. Meanwhile, suburbanites looked back to see that "old neighborhoods"—theirs or their parents—had become black or Hispanic, and feared the same pattern would be repeated where they now lived if low-income housing were permitted.
- Housing needs (other than homelessness) are not visible to most people in the course of their daily lives. Slums are someone else's problem if you do not live there. Few people, even housing advocates, realize the extent to which low-income housing needs are growing. Few realize that low-income housing assistance has never been sufficient to meet a reasonable definition of need. Few realize that growing homelessness is not primarily the result of the Reagan budget cuts. We would still face the problem, though less intensely, even had the production levels of the Ford or Carter years been continued.
- There is no single "housing problem"; rather, housing needs are specific and diverse. For example, those of elderly people hanging on to a house that they can no longer afford to heat or maintain are far different from those of a family with several children living in a small, overcrowded apartment. Thus, the constituency for housing cannot be based on appeals to immediate self-interest of poorly housed people.
- Overwhelmingly, people either have relatively decent housing, or have little hope of getting it. Any housing proposals likely to be seriously entertained by either Congress or a sympathetic administration cannot promise much in relation to need in the short run: contrast 100,000 (or even 400,000 or 600,000 units) with needs of 7.5 to 15 million units. At current levels, it will take 75 years or more to meet the low income housing need estimated by the Reagan Administration's Housing Commission in 1982. What political realist can get excited about that prospect?

Despite these obstacles, as inclusion of a low-income tax credit in last year's tax reform act and the failure of the Reagan Administration to achieve more than about half the cuts it has requested in low-income housing programs show, there is a core of support for low-income housing in the Congress. This provides a basis for future efforts.

Three basic principles should undergird these efforts:

- Focus on meeting the greatest needs first—lowest income, large households and minorities.
- Add to the low-income supply through the "social" sector (that is,

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public or non-profit ownership, preferably community-based, including joint ventures), leaving moderate-, middle-, and upper-income housing to the for-profit sector. Ideally, some 750,000 units annually should be added to the stock of low-income housing through acquisition, rehabilitation or construction. But, because capacity development is still a problem, a program that gave real priority to the "social sector" would probably fit within presently anticipated budget constraints.

- Move toward providing income-based assistance to all who need it to obtain decent, affordable housing an entitlement. At least 8 million additional renter households need help, which requires a threefold increase in households receiving assistance. An alternative to approaching income-based assistance as a housing program, as is now done with vouchers and the Section 8 existing program, such aid might be linked to welfare reform efforts, so long as minimum housing standards are met.

If consensus can be reached around these principles, both the design of new housing programs and the improvement of existing programs will be considerably eased. Casting these programs in a way which will combine the necessary federal financial support with maximum responsiveness to consumers and to local housing needs will provide the ingredients to overcome many of the past political obstacles to housing assistance. Most of the others can be dealt with through broader public knowledge of the largely overlooked dimensions of low-income housing needs, of the progress which has been made over the years in developing more responsive approaches, and of the extent to which middle and upper income people are already receiving housing assistance, through homeowner deductions.

It is important that mortgage bankers concern themselves not only with the role of the federal government in establishing the ground rules under which the private sector operates, but that they also assist in the process of developing the kind of consensus and support that will be necessary to achieve the national housing goal of "a decent home and a suitable living environment for every American family" enacted in 1949, but still too far from reality. ☐

Cushing N. Dolbeare is a consultant on housing and public policy in Washington, D.C. She was president of the National Low-Income Housing Coalition from 1979 to 1984. She testifies frequently on housing needs and pending legislation before House and Senate Committees.

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[1] Estimates based on 1983 *Annual Housing Survey* data show that 43 percent of all renter households in the U.S. had incomes below 50 percent of median, adjusted for household size and two-thirds had incomes below the 80 percent of median standard often used to assess housing need.

[2] The appropriate definition of "low-income" is, of course, controversial. In the housing context, it should be defined operationally as the level of income below which the private sector cannot provide decent housing at a reasonable rate of return. The standard here should be based on costs in the existing stock if it is adequate or can be made so, or in new construction if acceptably located existing housing is unavailable. The most serious low-income housing problems are, of course, suffered by those with lowest incomes, by large families and by minorities.

[3] That is, even if the structure itself were rent or mortgage-free, the household would be unable to pay utilities, maintenance, etc.

[4] This includes all forms of direct federal subsidy, whether tenant-based (such as housing allowances) or unit-based.

[5] Data calculated from information in U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 155, *Receipt of Selected Non-cash Benefits: 1985*, Table 1.

[6] The *1983 Annual Housing Study* provides the most recent available data on number of units, by gross rent, for the United States. The number of subsidized housing units trebled between 1970 and 1983, rising to about three million.

[7] This analysis grossly understates the severity of the problem by ignoring the critical factors of quality, availability and location.

[8] This is the subsidized housing subfunction of the federal budget, as calculated by the Office of Management and Budget.

[9] The latest year for which data are available.

[10] 1980-86 figures are actual figures from OMB and HUD budget submissions; 1987 figures are official estimates from the same source.

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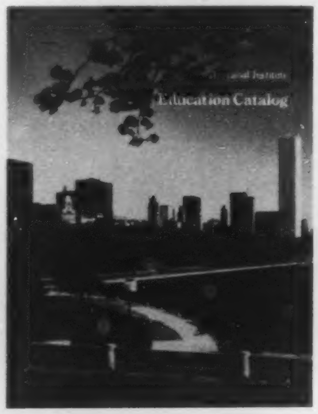

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
MAR	141	107	34	1,730	1,296	434	150	109	41	1,719	1,244	475
APR	159	124	35	1,643	1,275	368	157	117	40	1,598	1,152	446
MAY	158	120	38	1,606	1,197	409	136	104	32	1,493	1,100	393
JUN	165	123	42	1,586	1,173	413	156	118	38	1,517	1,124	393
JUL	154	119	35	1,606	1,212	394	141	104	37	1,487	1,080	407
AUG$_p$	**144**	**106**	**38**	**1,582**	**1,160**	**422**	**127**	**94**	**33**	**1,486**	**1,088**	**398**
1986 TOTAL	1,805	1,262	543				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
8 MONTHS												
1987	1,127	850	277				1,075	794	281			
1986	1,268	885	383				1,222	823	399			
1985	1,176	805	371				1,161	744	417			
1984	1,224	844	380				1,183	762	421			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
MAR	21	24	57	40	296	348	616	470	25	26	60	41	317	335	624	443
APR	26	28	66	40	272	305	665	401	27	32	58	41	290	305	588	415
MAY	28	28	60	37	297	309	623	377	26	28	50	33	274	284	575	360
JUN	28	35	57	43	256	287	607	436	29	29	59	40	276	266	605	370
JUL	29	26	58	42	283	246	640	437	27	27	49	37	279	255	555	398
AUG$_p$	**26**	**29**	**52**	**36**	**248**	**274**	**634**	**426**	**23**	**24**	**48**	**32**	**255**	**249**	**598**	**384**
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					560	237	753	484				
8 MONTHS																
1987	184	203	438	302					188	194	409	284				
1986	196	202	529	340					187	196	494	345				
1985	158	159	535	325					171	156	509	326				
1984	127	164	623	310					129	144	581	330				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
MAR	325	73	352	6.0	225.9	112.0	27.5	86.4	1,085	670	415	127	86	41
APR	331	72	355	5.8	224.6	112.8	27.0	84.8	1,070	675	395	135	94	41
MAY	346	62	352	6.8	228.1	112.8	26.6	88.7	1,061	670	391	131	94	37
JUN	360	58	359	6.8	221.6	113.1	25.0	83.5	1,064	674	390	147	108	39
JUL	333	55	359	6.6	221.2	114.4	23.5	83.3	1,062	681	381	140	99	41
AUG$_p$	**318**	**58**	**363**	**6.4**	**224.8**	**114.4**	**24.9**	**85.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a**	**n.a**
1986 TOTAL	3,565	749										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
8 MONTHS														
1987	2,470	489										933*	648*	285*
1986	2,389	538										1,110	751	359
1985	2,170	484										1,089	736	353
1984	2,036	451										1,064	730	334

*7 month totals only

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
DEC	$74,941	$14,615	$26,639	$27,478	$6,209	$47,459	$13,148	$19,298	$14,720	$293
1987										
JAN	42,858	9,748	12,942	18,641	1,527	31,421	8,791	10,477	11,932	221
FEB	44,277	10,518	13,140	18,914	1,705	31,534	10,012	10,773	10,534	215
MAR	56,192	14,311	18,044	20,960	2,877	40,870	13,876	15,084	11,357	553
APR	61,568	15,043	21,260	23,150	2,115	46,610	14,507	18,100	13,862	141
MAY$_p$	**60,533**	**13,305**	**21,157**	**23,780**	**2,291**	**45,117**	**13,013**	**18,107**	**13,899**	**98**
1986 TOTAL	603,948	142,884	218,118	205,503	37,443	438,441	131,628	176,063	126,936	3,814
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	242,112	63,296	109,286	68,224	1,306
5 MONTHS										
1987	231,818	61,773	84,955	78,644	6,446	195,554	60,199	72,542	61,585	1,228
1986	132,614	39,892	54,224	37,355	1,143	132,614	39,892	54,224	37,355	1,143
1985	80,563	20,492	38,672	21,090	309	80,563	20,492	38,672	21,090	309
1984	83,330	23,048	37,938	21,993	351	83,330	23,048	37,938	21,993	351

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS Total	5+ UNITS Mtg. Bankers[9]	5+ UNITS S&Ls	5+ UNITS Banks[2]	5+ UNITS Life Cos.	NONRESIDENTIAL Total	NONRESIDENTIAL Mtg. Bankers[9]	NONRESIDENTIAL S&Ls	NONRESIDENTIAL Banks[2]	NONRESIDENTIAL Life Cos.
1986										
DEC	$6,753	$919	$3,629	$1,677	$528	$20,729	$548	$3,712	$11,081	$5,388
1987										
JAN	2,878	529	1,340	877	132	8,559	428	1,125	5,832	1,174
FEB	2,365	222	1,144	864	135	10,378	284	1,223	7,516	1,355
MAR	2,838	71	1,430	1,004	333	12,484	364	1,530	8,599	1,991
APR	3,858	60	1,404	2,118	276	11,100	476	1,756	7,170	1,698
MAY$_p$	**2,771**	**60**	**1,570**	**762**	**379**	**12,645**	**232**	**1,480**	**9,119**	**1,814**
5 MONTHS										
1987	14,902	942	6,890	5,815	1,225	55,164	1,784	7,114	38,234	8,032
1986	11,682	1,600	6,235	2,660	1,187	42,799	1,306	7,535	25,432	8,526
1985	9,008	781	5,237	2,218	772	31,313	734	7,685	15,641	7,253
1984	8,371	339	5,084	2,379	569	27,893	1,235	7,329	14,680	4,649

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH Total	ISSUED DURING MONTH Mtg. Bankers[9]	ISSUED DURING MONTH S&Ls	ISSUED DURING MONTH Banks[2]	ISSUED DURING MONTH Life Cos.	OUTSTANDING Total	OUTSTANDING Mtg. Bankers[9]	OUTSTANDING S&Ls	OUTSTANDING Banks[2]	OUTSTANDING Life Cos.
1986										
DEC	43,851	13,033	19,548	7,979	3,291	124,310	23,189	43,014	41,809	16,298
1987										
JAN	29,511	7,044	14,068	6,674	1,725	126,919	18,703	50,462	41,594	16,160
FEB	39,650	10,941	16,795	9,599	2,315	139,858	20,664	51,689	51,121	16,384
MAR	48,132	12,078	22,955	9,974	3,125	137,219	20,110	53,750	47,241	16,118
APR	49,914	11,247	24,471	10,521	3,675	138,389	19,788	56,532	45,125	16,944
MAY$_p$	**53,536**	**11,302**	**24,203**	**14,232**	**3,799**	**149,856**	**22,151**	**57,828**	**51,694**	**18,183**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
5 MONTHS										
1987	220,790	52,612	102,492	51,047	14,639					
1986	211,303	52,913	89,810	49,569	19,011					
1985	117,798	18,149	63,981	23,382	12,286					
1984	116,962	22,569	63,034	21,223	10,136					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
MAR	307	190	49	68	247	16,893	148	9,134	60	4,420	39	3,339
APR	285	165	41	79	227	15,768	142	8,947	41	3,021	44	3,800
MAY	216	104	38	74	230	15,838	149	9,265	36	2,622	45	3,951
JUN	212	93	43	76	219	15,501	120	7,502	47	3,424	52	4,575
JUL	192	88	37	67	n.a.	n.a.	n.a.	n.a.	41	2,979	52	4,566
AUG$_p$	**n.a.**	**n.a.**	**n.a.**	**57**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**46**	**3,957**
el4												
1986 TOTAL	3,283	1,908	452	923	1,852	127,759	921	56,301	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,333	87,485	410	23,964	192	13,046	731	50,475
8 MONTHS												
1987	n.a.	n.a.	n.a.	517	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	353	30,560
1986	2,343	1,427	286	630	1,124	77,076	554	34,059	199	14,205	371	28,812
1985	1,452	578	152	722	833	54,146	231	13,333	114	7,549	488	33,264
1984	1,273	301	143	829	1,025	65,637	208	11,270	149	9,577	668	44,790

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
MAR	2,805	1,435	107,673	4,627	9,385	14,314	9,394	9,145	10,873	10,736
APR	3,208	2,118	112,673	6,997	8,167	12,965	9,777	9,852	15,050	11,934
MAY	1,726	1,718	116,861	7,086	6,730	5,170	7,996	7,768	10,220	8,367
JUN	1,745	1,690	121,270	6,648	6,781	6,309	7,864	7,436	14,077	8,440
JUL	2,373	1,569	125,461	5,842	5,521	2,715	7,252	6,825	7,594	8,807
AUG$_p$	**2,276**	**1,613**	**127,881**	**3,997**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**6,533**	**8,245**
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,025	56,689	44,012	41,454	64,360	45,868
8 MONTHS										
1987	15,993	12,466	—	46,251	52,841	57,446	58,194	57,085	89,948	76,845
1986	23,282	17,509	—	36,545	54,004	76,674	47,794	45,694	83,022	53,350
1985	13,797	14,718	—	11,933	24,834	27,611	23,200	21,403	39,087	25,900
1984	13,320	11,231	—	8,811	15,650	15,036	9,559	8,887	24,642	19,962

*Year-to-date totals are for seven months only.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
MAR	8.94%	9.19%	9.20%	9.14%	9.09%	8.06%	8.663%
APR	10.02	10.11	10.14	9.21	9.09	8.35	9.655
MAY	10.61	10.44	10.46	9.37	9.27	8.85	10.208
JUN	10.33	10.29	10.29	9.45	9.38	8.69	9.995
JUL	10.38	10.22	10.23	9.44	9.43	8.45	9.773
AUG$_p$	**10.55**	**10.37**	**10.38**	**9.38**	**9.40**	**8.91**	**10.007**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[6]	CURRENT SECONDARY MARKET YIELDS FNMA[6]	CURRENT SECONDARY MARKET YIELDS FHLMC[6]	SELECTED SECURITIES A-Rated[7] Utility	SELECTED SECURITIES U.S. Government 10-yr.	SELECTED SECURITIES U.S. Government 26-wk.	SELECTED SECURITIES Prime Comm. Paper 90-119 Days
1987							
APR	9.06%	9.13%	9.08%	9.51%	8.02%	5.90%	6.45%
MAY	9.76	9.62	9.59	10.05	8.61	6.05	6.93
JUN	9.69	9.70	9.65	10.05	8.40	5.99	6.92
JUL	9.62	9.64	9.59	10.17	8.45	5.76	6.65
AUG	9.79	9.73	9.70	10.37	8.76	6.15	6.71
SEP	**10.43**	**10.29**	**10.25**	**10.84**	**9.42**	**6.61**	**7.37**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
MAR	10	87	100	97
APR	51	104	111	106
MAY	56	115	101	98
JUN	28	129	130	125
JUL	21	117	119	114
AUG	−29	103	97	94
SEP	**n.a.**	**101**	**87**	**83**

NA—Not available, p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not computed.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

DEC

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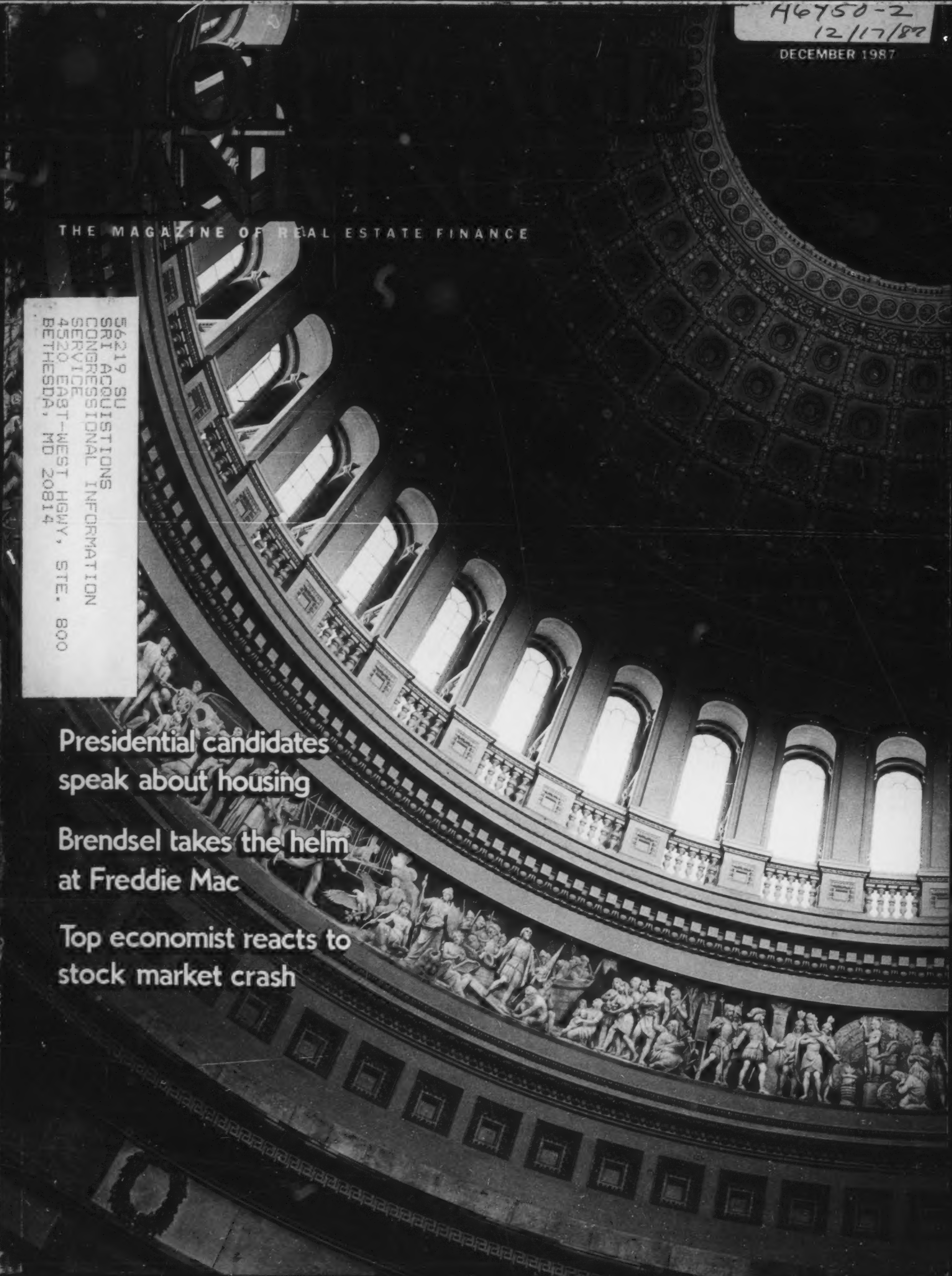
DECEMBER 1987



THE MAGAZINE OF REAL ESTATE FINANCE

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Presidential candidates speak about housing

Brendsel takes the helm at Freddie Mac

Top economist reacts to stock market crash

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 48 NUMBER 3

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EDITORIAL PAGE

THE COVER

The U.S. Capitol dome is instantly recognized by Americans as the center of governmental power and is universally regarded as a symbol of democracy. This month, ***Mortgage Banking*** offers an inside look, not only at the U.S. Capitol dome as depicted on the cover, but the inner workings of two congressional committees and insight into what the presidential candidates think about national housing policies.

An inside look at the Capitol dome reveals Constantino Brumidi's "Apotheosis of Washington," the fresco in the canopy of the dome, considered a masterful allegorical work of art. Brumidi worked 11 months painting this masterpiece; he signed it in 1865. Symbols for the 13 original colonies surround the figure of George Washington that is flanked by images depicting Liberty, Victory and Fame. Other allegorical figures averaging 25 feet in height symbolize the Arts and Sciences, the Sea, Commerce, Mechanics, Agriculture, War and Freedom.

LaDonna Hale Curzon
Assistant Editor

THE ISSUE

This year *Mortgage Banking* celebrates editorial firsts in this December issue that traditionally examines legislative and regulatory issues. We've got the 1988 presidential candidates on record with their views on housing as well as some views on the political process from those who make it happen.

The Mortgage Bankers Association of America (MBA) posed questions about housing and real estate finance to each presidential candidate. In a first for *Mortgage Banking*, we publish those interviews with the candidates.

Congress could not work without the expertise and political savvy of its professional staff. In another first for *Mortgage Banking*, we interview two key staff directors who work on housing legislation. We hope you enjoy their insights and perspectives.

In these times of volatile economic changes, we could not neglect the stock market and how it affects mortgage lending. Be sure to read Lyle Gramley's comments about the changes wrought by the stock market crash.

And, our interviews with real estate finance leaders continue with Leland Brendsel, Federal Home Loan Mortgage Corporation (Freddie Mac) president.

THE ARTIST

Peter Gridley captured the inner beauty hidden inside the U.S. Capitol dome featured on this month's cover. He specializes in photographing landmarks in the nation's capital. As a fulltime photographer, he has a studio in the Washington, D.C. suburb of Reston, Virginia.

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Streamlining the Mortgage Lending Process

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Americans open the lid on their home equity.

BANKING ON YOUR HOME

Thomas M. Holloway

Wealth accumulation plays a key role in planning for retirement, determining consumer saving and spending, providing bequests to descendants and influencing national capital formation and economic growth. In short, wealth accumulation has significant economic impacts and is a key element of the nation's economic well-being.

Trends in household sector assets and net worth—In assessing their financial condition, households must focus not only on the overall growth in their assets and net worth, but also on the composition of their wealth. Economic theory suggests that households select among the various assets available to them on the basis of risk, expected earnings and expected capital gains. When economic conditions change and these changes affect capital gains or other factors influencing portfolio choices, households may act to adjust the composition of their portfolio.

Available data on household balance sheets show assets and net worth, and permit an analysis of the relative importance and growth of various balance sheet entries. Owner-occupied housing, land and consumer durables are the most important tangible assets. Checking and saving deposits, credit market instruments, corporate equities, life insurance and pension reserves, and equity in non-corporate business are the most important financial assets.

Table 1 shows total household sector assets and net worth. The table also shows owner-occupied real estate and home equity and their respective shares of total assets and net worth. Household assets increased $14.8 trillion from 1960-86; net worth increased $12.3 trillion. At compound annual rates, assets increased 8.6 percent and net worth increased 8.4 percent. The rate of increase was not uniform over the period. An examination of the growth rates during three subperiods, 1960-70, 1970-80, and 1980-86, suggests that growth rates in assets and net worth reflected general patterns of inflation. The inflation rate averaged 2.7 percent during 1960-70, 7.3 percent during 1970-80 and 4.7 percent during 1980-86; over the entire 1960-86 period, the inflation rate was 4.9 percent. The growth rates in assets and net worth, shown at the bottom of Table 1, were lowest during the 1960-70 subperiod and highest during the 1970-80 subperiod. During the most recent subperiod, growth rates of assets and net worth—like the inflation rate—were similar to the entire 1960-86 period average.

The value of owner-occupied real estate increased $3.3 trillion from 1960-86, with particularly rapid increases during the 1970-80 subperiod.

Rapid growth continued until 1982, when there was an abrupt decline in the aggregate value of owner-occupied real estate. Because home mortgages did not decline, home equity also declined in 1982.

Owner-occupied real estate averaged 20.8 percent of total assets during 1960-86. The share was lowest during the mid-1960s, highest during the late 1970s, and peaked in 1979 at 25.3 percent. Home equity averaged 14.5 percent of net worth during 1960-86. The share was lowest during the mid-1960s, highest during the late 1970s, and peaked in 1978 at 19.0 percent. Variation over time in the shares of owner-occupied real estate and home equity partly reflected the responsiveness of owner-occupied real estate to inflation during the period under review. During the period, appreciation of owner-occupied real estate nearly exactly matched the inflation rate.

Because owner-occupied housing is a leveraged asset (*i.e.*, part of the value is financed) and home mortgages do not automatically increase with inflation, home equity increased more rapidly than the inflation rate. For this reason, homeownership has been viewed as an effective hedge against inflation. Home equity as a share of net worth increased during periods of accelerating inflation, such as 1972-74 and 1976-79, and generally decreased as a share during periods of decelerating inflation, such as

TABLE 1

Household Sector Assets, Liabilities, and Net Worth [Billions of dollars, except where noted]

	Assets		Net Worth			
Year	Total	Owner-Occupied Real Estate	Total	Home Equity	Owner-Occupied Real Estate as a Percent of Total Assets	Home Equity as a Percent of Total Net Worth
1960	1,973.9	372.9	1,745.7	235.6	18.9	13.5
1961	2,149.6	388.0	1,903.3	238.5	18.0	12.5
1962	2,161.8	403.8	1,893.7	240.5	18.7	12.7
1963	2,328.0	414.7	2,030.3	234.8	17.8	11.6
1964	2,495.7	441.1	2,168.3	243.8	17.7	11.2
1965	2,691.1	462.2	2,332.4	247.9	17.2	10.6
1966	2,788.8	510.5	2,405.9	282.0	18.3	11.7
1967	3,087.5	537.0	2,679.0	296.3	17.4	11.1
1968	3,445.7	600.4	3,000.5	342.7	17.4	11.4
1969	3,515.5	655.6	3,038.1	379.4	18.6	12.5
1970	3,670.2	689.8	3,169.3	399.8	18.8	12.6
1971	4,043.8	767.9	3,494.8	453.1	19.0	13.0
1972	4,476.4	859.3	3,860.2	506.3	19.2	13.1
1973	4,709.3	997.5	4,019.4	600.7	21.2	14.9
1974	4,950.3	1,137.7	4,209.1	706.3	23.0	16.8
1975	5,551.9	1,233.1	4,760.6	763.4	22.2	16.0
1976	6,275.5	1,415.9	5,387.7	886.5	22.6	16.5
1977	6,968.7	1,685.0	5,940.0	1,065.8	24.2	17.9
1978	7,986.7	2,015.8	6,788.7	1.288.1	25.2	19.0
1979	9,197.2	2,323.6	7,820.9	1,476.7	25.3	18.9
1980	10,537.1	2,568.9	9,028.2	1,625.6	24.4	18.0
1981	11,434.2	2,845.6	9,796.4	1,822.6	24.9	18.6
1982	11,911.6	2,703.4	10,184.9	1,638.8	22.7	16.1
1983	13,141.6	3,062.6	11,216.4	1,887.9	23.3	16.8
1984	14,006.7	3,230.5	11,849.2	1,927.1	23.1	16.3
1985	15,336.2	3,332.7	12,873.4	1,882.7	21.7	14.6
1986	16,806.5	3,677.2	14,049.3	2,030.4	21.9	14.5
Compound annual growth rates (percent):						
1960-86	8.6	9.2	8.4	8.6	—	—
1960-70	6.4	6.3	6.1	5.4	—	—
1970-80	11.1	14.1	11.0	15.1	—	—
1980-86	8.1	6.2	7.6	3.8	—	—

Source: Board of Governors of the Federal Reserve System, *Balance Sheets for the U.S. Economy 1947-86* (May 1987).

CHART 1

Home Equity Share of Net Worth and the Inflation Rate

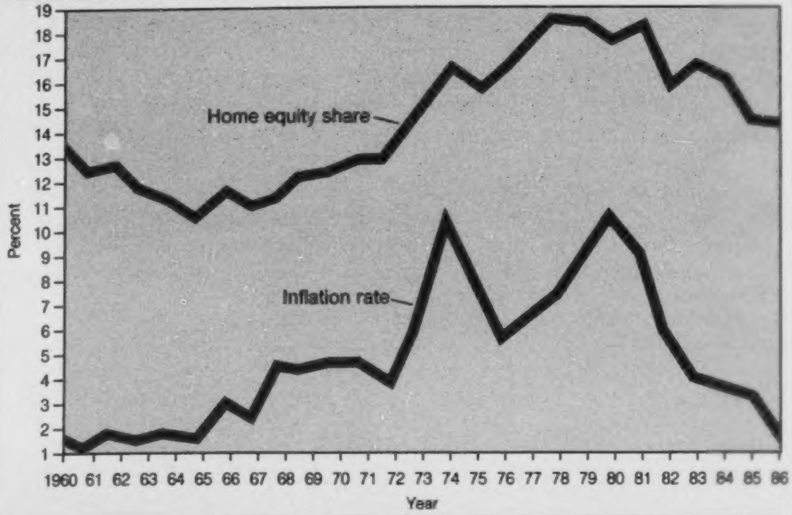

TABLE 2

Homeownership Rate by Income Quintile [Percent]

	Income		Quintile			
Year	Lowest	Second	Third	Fourth	Highest	All Quintiles
1960	51.0	50.8	59.2	70.0	78.3	61.9
1970	49.9	51.2	60.8	72.4	80.2	62.9
1975	46.5	53.9	63.5	73.8	85.5	64.6
1980	46.1	54.1	62.1	77.7	83.0	65.6
1983	43.4	54.0	63.0	75.8	87.2	64.7

Sources: For 1960 and 1970: U.S. Department of Commerce, Bureau of the Census, *Census of Housing*. For 1975, 1980, and 1983: U.S. Department of Commerce, Bureau of the Census and U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Annual Housing Survey: Financial Characteristics of the Housing Inventory*. Quintile splits were estimated by the author using grouped data from the volumes as noted.

1974-75 and 1980-86. Chart 1 illustrates the relationship between the inflation rate and the home equity share of net worth.

These observations about net worth and the role of homeownership over time must be viewed in the context of the economic, financial and demographic conditions of the period—conditions that are likely to be different in the future.[1] Most importantly, during part of the 1970s, accelerating inflation was not anticipated. Partly for this reason, real interest rates were very low and sometimes negative. This encouraged individuals to borrow to purchase houses, thus bidding up their prices. Also, the baby boom generation, those individuals born between 1945 and 1964, contributed significantly to household formations in the late 1970s, further strengthening the demand for houses. Factors such as these, which contributed to making homeownership a good hedge against inflation in the past 25 years, may not be operative to the same degree in the event of high inflation in the future.

In any case, homeownership clearly plays an important role in accounting for growth in aggregate household sector net worth. However, the significance of homeownership becomes much more pronounced when considering the distribution of wealth.

Homeownership and the distribution of wealth—Data on the distribution of household wealth are available only at irregular intervals and differ in quality and coverage. Two of the most comprehensive studies were conducted by the Board of Governors of the Federal Reserve and pertain to 1962 and 1983, respectively.

One of the most noteworthy aspects of homeownership is that it is very broadly distributed, even among low-income households. Table 2 shows the homeownership rate by income quintile and illustrates several important points. First, the overall homeownership rate is about 60-65 percent—an important indicator of the widespread distribution of this type of asset. Second, even in the lowest two income quintiles, nearly one-half of all households owned homes. Third, homeownership rates increased with income levels. Fourth, with time, homeownership rates have declined in the lowest income quintile, but increased in the highest income quintile. Two of the reasons for shifts in homeownership rates among low-income and high-income households include demographic changes and trends in interest rates.[2] During the 1960-83 period, single mothers and persons living alone—population subgroups that traditionally experience relatively low homeownership rates at all income levels—have become increasing proportions of low-income households. During the same period, nominal interest rates have trended upward—primarily as a result of rising inflation rates—and have made it more difficult for low-income households to qualify for mortgage loans.

Table 3 provides more specific information about the distribution of owner-occupied housing compared to other types of assets in 1962 and 1983. The table shows the share of total assets, liabilities, net worth and selected components of these totals held by the wealthiest 1 percent of households. These statistics provide one indicator of the degree of wealth concentration. The table also shows Gini coefficients, which measure the degree of inequality in the distribution of wealth. Gini coefficients range in value from 0 to 1.0. A coefficient of 0 implies complete equality (*i.e.*, all households own the same amount of wealth); a Gini coefficient of 1.0 implies complete inequality (*i.e.*, a single household owns all wealth). Gini coefficients between these extremes reflect differing degrees of wealth concentration.

Gini coefficients are shown for households holding the selected asset or liability and for all households. The difference in coverage between the measures can be illustrated using

TABLE 3

Concentration of Household Wealth by Selected Types of Assets and Liabilities

Type of Asset or Liability	Share Held by the Wealthiest 1 Percent of Households		Gini Coefficient for Households Holding the Selected Asset or Liability		Gini Coefficient for All Households	
	1962	1983	1962	1983	1962	1983
All assets	28.7	31.5	.71	.77	.71	.77
Owner-occupied housing	8.2	12.2	.35	.43	.63	.65
Other real estate	50.5	45.2	.66	.69	.96	.94
Vehicles	7.4	6.5	.47	.42	.61	.51
Demand deposits and currency	34.6	33.5	.81	.82	.81	.82
Time and savings deposit	23.6	29.6	.73	.78	.84	.85
Corporate stock	71.9	81.3	.86	.91	.98	.98
Trust fund equity	99.7	98.3	.91	.94	.999	.998
All liabilities	15.4	21.3	.62	.71	.75	.81
Mortgage debt	10.2	17.4	.38	.48	.80	.84
Other debt	34.7	53.2	.69	.81	.82	.89
Net worth	32.4	33.6	.77	.79	.77	.79

Source: Edward N. Wolff and Marcia Marley, "Long-term Trends in U.S. Wealth Inequality: Methodological Issues and Results," in Robert E. Lipsey and Helen Stone Tice, eds., *The Measurement of Saving, Investment, and Wealth* (Chicago: University of Chicago Press, forthcoming). Wolff and Marley computations are based on data in Dorothy S. Projector and Gertrude S. Weiss, *Survey of Financial Characteristics of Consumers* (Washington, D.C.: Board of Governors of the Federal Reserve, 1966) and unpublished data from the 1983 Survey of Consumer Finances. Additional computations on the Gini coefficient for all households were made by the author.

TABLE 4

Components of Net Worth by Size of Total Net Worth, 1983

Components of Total Net Worth	Size of Total Net Worth [$Thousand]									
	0 or Negative	Up to 4.9	5.0-9.9	10.0-24.9	25.0-49.9	50.0-99.9	100.0-249.9	250.0-499.9	500.0 +	All
Mean value ($thousand):										
Home equity	.1	.3	2.4	8.9	23.3	43.3	64.8	94.6	204.9	34.6
Other real estate equity	0	0	.3	.8	2.2	5.8	20.6	56.4	322.8	19.5
Vehicle equity	.4	1.3	2.4	2.6	3.2	4.3	5.9	7.8	11.6	3.7
Liquid assets	.5	.6	1.8	3.0	4.3	9.6	25.6	40.6	93.1	12.3
Corporate stock	0	.2	.1	.4	.7	1.5	6.6	21.0	267.4	12.6
Other assets and liabilities	-3.0	-.5	.1	1.0	3.2	6.6	26.8	122.7	818.4	42.5
Total net worth	-2.0	1.9	7.2	16.8	36.9	71.1	150.4	343.1	1718.1	125.2
Percent of net worth:										
Home equity	n.m.	16.1	34.0	53.3	63.1	60.9	43.1	27.6	11.9	27.6
Other real estate equity	n.m.	1.4	4.2	4.8	6.0	8.2	13.7	16.4	18.8	15.6
Vehicle equity	n.m.	66.9	33.4	15.8	8.8	6.0	3.9	2.3	.7	3.0
Liquid assets	n.m.	31.4	25.1	18.0	11.6	13.5	17.0	11.8	5.4	9.8
Corporate stock	n.m.	9.2	1.7	2.2	2.0	2.1	4.4	6.1	15.6	10.1
Other assets and liabilities	n.m.	-25.0	1.6	6.0	8.6	9.3	17.8	35.8	47.6	33.9
Addendum:										
Households by size of total net worth:										
Number in millions	6.7	14.3	5.1	10.3	12.8	14.9	12.2	4.2	3.2	83.9
Percent of total	8.0	17.0	6.1	12.3	15.3	17.8	14.6	5.0	3.8	100.0

Source: Richard T. Curtin, F. Thomas Juster, and James N. Morgan, "Survey Estimates of Wealth: An Assessment of Quality," in Robert E. Lipsey and Helen Stone Tice, eds., *The Measurement of Saving, Investment, and Wealth* (Chicago: University of Chicago Press, forthcoming). Curtin, Juster, and Morgan computations are based on unpublished data from the 1983 Survey of Consumer Finances. Additional computations were made by the author.
n.m. = not meaningful.

TABLE 5

Components of Net Worth by Income Class, 1983

Components of Total Net Worth	Income Class [$Thousand]						
	Less than 10.8	10.8-23.9	24.0-47.9	48.0-95.9	96.0-191.9	Greater than 191.9	All
Mean value ($thousand):							
Home equity	14.2	24.2	40.2	69.4	154.5	306.3	34.6
Other real estate equity	3.2	6.4	14.2	50.0	105.4	763.6	19.5
Vehicle equity	1.3	2.8	4.5	6.5	9.6	13.1	3.7
Liquid assets	2.6	8.6	12.9	27.4	69.0	182.6	12.3
Corporate stock	.3	1.6	4.2	21.8	151.4	769.9	12.6
Other assets and liabilities	7.7	9.4	24.4	91.3	347.9	2028.2	42.5
Total net worth	29.3	53.0	100.4	266.4	837.8	4063.7	125.2
Percent of net worth:							
Home equity	48.5	45.7	40.0	26.1	18.4	7.5	27.6
Other real estate equity	10.9	12.1	14.1	18.8	12.6	18.8	15.6
Vehicle equity	4.4	5.3	4.5	2.4	1.1	.3	3.0
Liquid assets	8.9	16.2	12.8	10.3	8.2	4.5	9.8
Corporate stock	1.0	3.0	4.2	8.2	18.1	18.9	10.1
Other assets and liabilities	26.3	17.7	24.3	34.3	41.5	49.9	33.9
Addendum:							
Households by income class:							
Number in millions	22.1	27.9	24.6	7.2	1.3	.7	83.9
Percent of total	26.4	33.2	29.3	8.6	1.6	.8	100.0

Source: Richard T. Curtin, F. Thomas Juster, and James N. Morgan, "Survey Estimates of Wealth: An Assessment of Quality," in Robert E. Lipsey and Helen Stone Tice, eds., *The Measurement of Saving, Investment, and Wealth* (Chicago: University of Chicago Press, forthcoming). Curtin, Juster, and Morgan computations are based on unpublished data from the 1983 Survey of Consumer Finances. Additional computations were made by the author.

owner-occupied housing as an example. The former Gini coefficient reflects the distribution of housing assets among households that own a house and ignores the fact that 35 to 40 percent of households do not own a house. The latter Gini coeeficient reflects the distribution of housing assets among all households whether they own a house or not. For this reason, these latter Gini coefficients are higher (*i.e.*, suggest greater inequality in the distribution) because these coefficients also reflect households that do not own any of the asset.

The table indicates that there are striking differences in the degree of concentration among different types of assets and liabilities. In 1983, the least concentrated item was vehicles—the Gini coefficient for all households was .51. The most concentrated item was trust fund equity with a Gini coefficient of .998. As the table shows, more than 98 percent of trust fund equity was held by the wealthiest 1 percent of households. Owner-occupied housing was more equitably distributed than any other item except for vehicles. The Gini coefficient of .65 was significantly lower than the coefficient of .77 for total assets or the coefficient of .79 for net worth. While more than 30 percent of the value of total assets and net worth were concentrated in the wealthiest 1 percent of households, only 12.2 percent of the value of owner-occupied housing was held by the wealthiest households. Other common assets, such as savings deposits and corporate stock, were also significantly more concentrated than owner-occupied housing. The upshot is that owner-occupied housing is distributed much more equitably than most other assets.

However, the table also suggests that the degree of wealth concentration of total assets, net worth and owner-occupied housing increased from 1962 to 1983. The wealthiest 1 percent of households held 28.7 percent of total assets and 32.4 percent of net worth in 1962 compared to 31.5 percent and 33.6 percent, respectively, in 1983. In 1962, 8.2 percent of the value of owner-occupied housing was held by the wealthiest 1 percent of households, and the Gini coefficient was .63. These values increased to 12.2 percent and .65, respectively, by 1983. Thus, the increase in the concentration of wealth included increased concentration in owner-occupied housing, but housing still remained significantly less concentrated than most other types of assets.

Tables 4, 5 and 6 and Charts 2 and 3 focus on the current distribution of net worth (as of late 1983) by wealth, income and age stratifications, and highlight the importance of home equity. The top portion of each table shows the average amounts of each component of net worth held by all households that fall within the wealth, income, or age stratum.[3] The bottom portion of each table shows the components of net worth as percentage of total net worth within each stratum. For example, in Table 4, home equity

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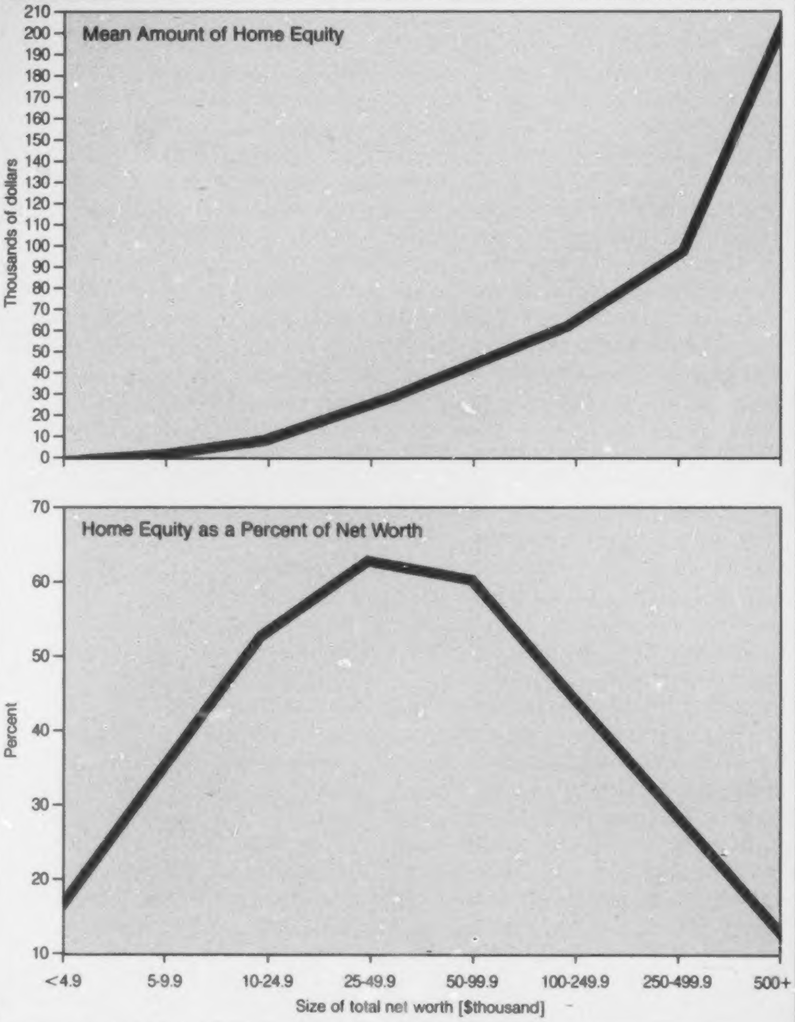
averaged 53.3 percent of total net worth for households that held $10.0-24.9 thousand total net worth. An addendum item to each table shows the number and percentage of households in each stratum.

The relative importance of home equity as a component of net worth by wealth strata shows an interesting pattern. The share of net worth accounted for by home equity first rises by wealth stratum, then begins to flatten, then falls sharply. Excluding households with overall net worth less than $5,000, home equity is the most important single source of net worth until households reach $250,000 in total net worth or more. The home equity share is greatest for households that hold $25,000 to $100,000 in net worth. For these households, which account for about 28 million or about one-third of all households, home equity accounts for more than 60 percent of the total. As households accumulate more than $250,000 in net worth, the relative importance of home equity declines as stocks and other assets (*e.g.*, bonds, equity in partnerships, etc.) become increasingly important shares of the portfolios of the wealthy.

Table 5 shows components of net worth stratified by income class. Chart 3 highlights the home equity item from the table. It is not at all surprising that net worth increases sharply with income. For households with income less than $10,800 net worth averages about $29,000. At the high end of the income range, households earning more than $191,900 average about

CHART 2

Mean Amount of Home Equity and Home Equity as a Percent of Net Worth by Size of Total Net Worth, 1983



$4.1 million in net worth. The mean amount of home equity also rises sharply with income. For households earning less than $10,800, home equity averages about $14,000; for households earning more than $191,900, home equity averages more than $300,000.

The relative importance of home equity as a component of net worth by income class is highlighted in the bottom panel of Chart 3. The share declines with each successive income stratum. For households earning less than $48,000 (about 75 million or about 89 percent of all households), home equity accounted for 40 percent or more of total net worth. This relatively high percentage is consistent with the high degree of ownership by low- and middle-income households and the statistics previously discussed concerning the relatively equitable distribution of homeownership. At the high end of the income range, the relative importance of home equity declines sharply for some of the same reasons discussed with respect to the relatively high wealth strata.

Table 6 shows components of net worth stratified by age groups. Age is clearly an important factor in the accumulation of wealth. The level of wealth at any point in time depends on the initial level of wealth, saving, and the return on the initial wealth and accumulated savings and returns. Because time is an important element in this process and older households have a longer time for wealth to grow, wealth should rise with age until assets are drawn down during retirement. For households with heads under 35, net worth averages about $30,000. Net worth peaks at about $282,000 for households with heads 65-69, then drops to about $174,000 for households with heads 70-74. Home equity follows a similar pattern, but differences in the means are much less pronounced. For example, the difference in mean net worth between households with heads 45-54 and those with heads 65-69 is nearly $100,000, but the difference in home equity is only about $4,000.

The shifts in the relative importance of home equity as a component of net worth by age reflect these patterns. The home equity percentage is largest for relatively young households. As the household head ages, other components of net worth become increasingly important. As the household head retires, some of these other components of net worth are drawn down, and housing once again becomes a more important component of the total portfolio.

During the past quarter century, aggregate household sector net worth increased eight-fold. After adjusting for price changes, the purchasing power equivalent of this net worth still more than doubled. Homeownership played a very important role. Using Federal Reserve household sector balance sheet data, the importance of homeownership relative to other types of assets and net worth was discussed. During periods of accelerating inflation and high inflation expectations, the data reveal that owner-occupied real estate and home equity became relatively more important components of household portfolios. A major reason was that capital gains made housing an effective hedge against inflation.

Using survey data from 1962 and 1983, the distribution of wealth among households was then examined. The data reveal the broad distribution of homeownership and show that the relative importance of home equity as a component of net worth varies by total amount of wealth, income and age. Homeownership is a relatively more important source of wealth for low- and middle-income households than for the very wealthy.

continued

CHART 3

Mean Amount of Home Equity and Home Equity as a Percent of Net Worth by Income Class, 1983

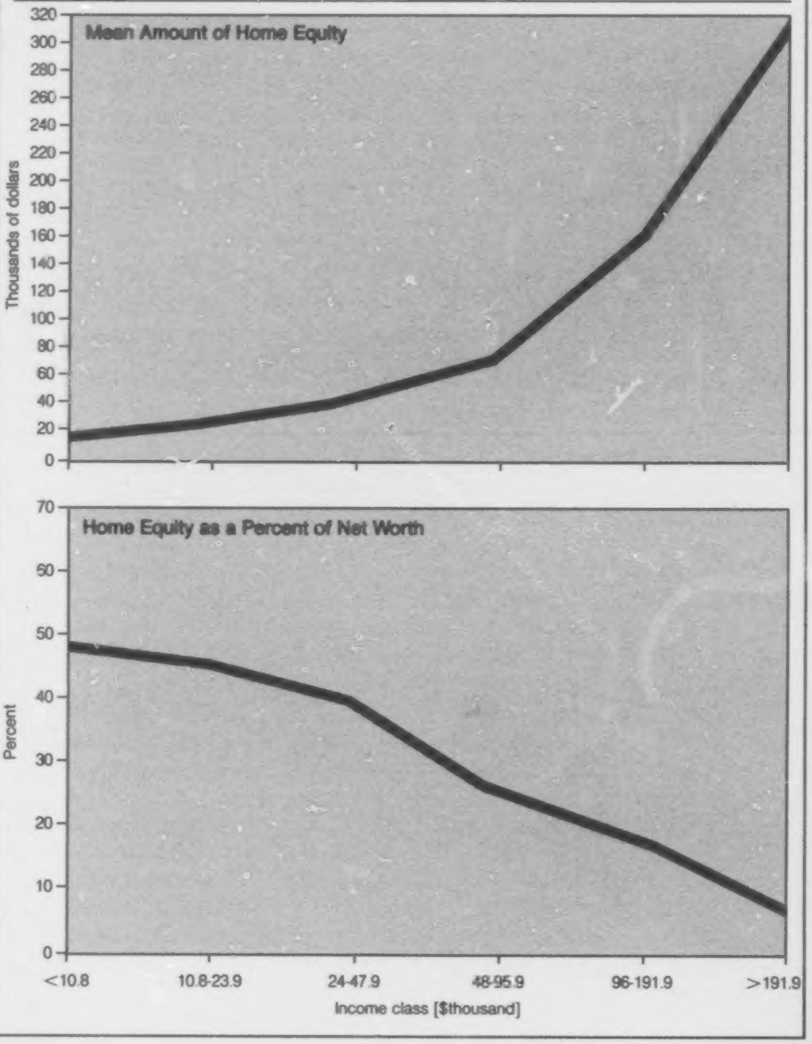


TABLE 6

Components of Net Worth by Age, 1983

Components of Total Net Worth	Age Groups							
	Under 35	35-44	45-54	55-64	65-69	70-74	Over 74	All
Mean value ($thousand):								
Home equity	10.2	34.2	52.4	54.2	56.6	43.2	32.1	34.6
Other real estate equity	3.8	11.7	23.1	30.3	84.8	19.9	16.5	19.5
Vehicle equity	2.5	3.8	4.6	4.4	3.8	2.8	1.8	3.7
Liquid assets	2.7	7.7	11.5	18.9	30.4	23.5	24.6	12.3
Corporate stock	1.1	4.7	13.4	24.1	33.7	33.9	21.0	12.6
Other assets and liabilities	9.5	37.7	82.7	72.9	72.3	51.1	26.2	42.5
Total net worth	29.8	99.8	187.7	204.8	281.6	174.4	122.2	125.2
Percent of net worth:								
Home equity	34.2	34.3	27.9	26.5	20.1	24.8	26.3	27.6
Other real estate equity	12.8	11.7	12.3	14.8	30.1	11.4	13.5	15.6
Vehicle equity	8.4	3.8	2.5	2.1	1.3	1.6	1.5	3.0
Liquid assets	9.1	7.7	6.1	9.2	10.8	13.5	20.1	9.8
Corporate stock	3.7	4.7	7.1	11.8	12.0	19.4	17.2	10.1
Other assets and liabilities	31.9	37.8	44.1	35.6	25.7	29.3	21.4	33.9
Addendum:								
Households by age of household head:								
Number in millions	25.5	16.4	13.2	12.6	5.6	4.5	6.0	83.9
Percent of total	30.4	19.5	15.7	15.0	6.7	5.4	7.2	100.0

Source: Richard T. Curtin, F. Thomas Juster, and James N. Morgan, "Survey Estimates of Wealth: An Assessment of Quality," in Robert E. Lipsey and Helen Stone Tice, eds., *The Measurement of Saving, Investment, and Wealth* (Chicago: University of Chicago Press, forthcoming). Curtin, Juster, and Morgan computations are based on unpublished data from the 1983 Survey of Consumer Finances. Additional computations were made by the author.

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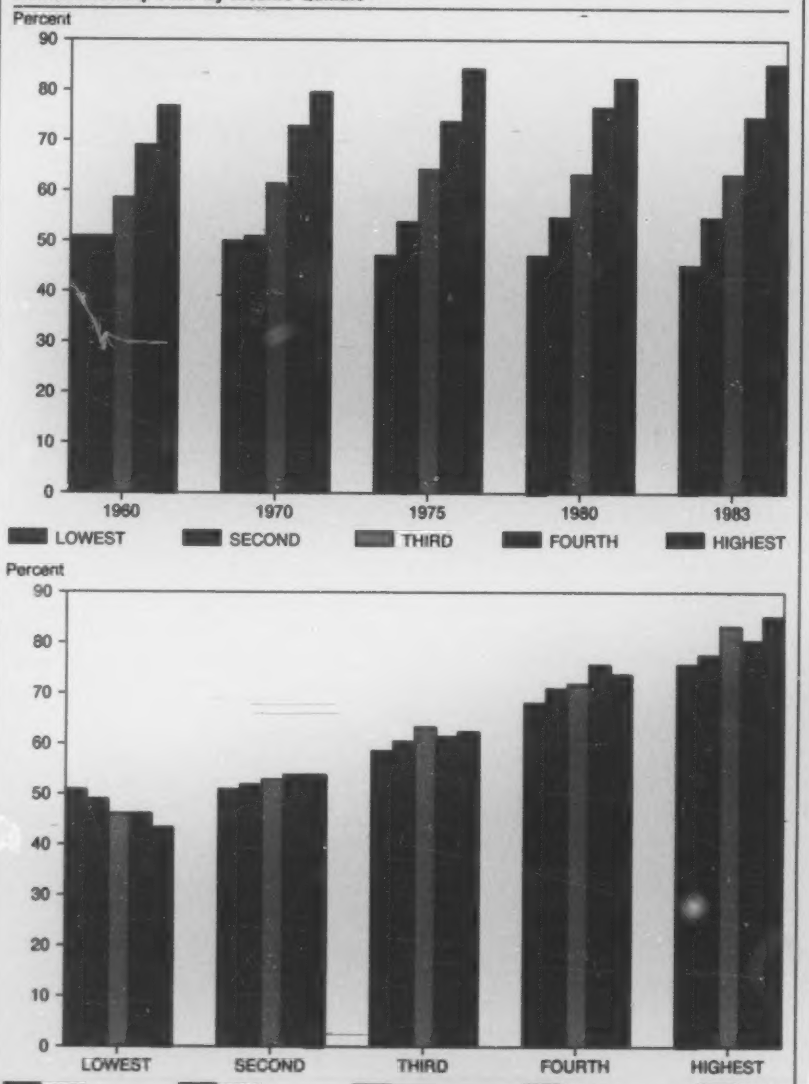
CHART 4

Homeownership Rate by Income Quintile



Homeownership has been an important contributor to the growth of aggregate household wealth in the United States since 1960 and has served as an effective inflation hedge during the period. When inflation and inflation expectations were high, appreciation in owner-occupied real estate contributed to increases in the relative importance of homeownership as a component of net worth. Homeownership also plays a crucial role compared with other types of assets in making the distribution of wealth in the United States more equitable. Home equity is more equally distributed than most of the other major components of household net worth. ☐

Thomas M. Holloway joined the Mortgage Bankers Association of America (MBA) in May 1987 as a senior economist. Prior to joining MBA, he was the chief of the special studies branch of the bureau of economic analysis in the U.S. Department of Commerce. His work has been published in the Survey of Current Business, Journal of Money, Credit, and Banking, Public Finance Quarterly, *and the* Journal of Economic and Social Measurement.

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[1] For a discussion of some of the long-run factors affecting homeownership, see Lyle E. Gramley, Richard W. Peach, and Edison R. Zayas, *Real Estate Finance and Housing: 1987 Outlook and Fact Book* (Washington, D.C.: Mortgage Bankers Association of America, 1987)

[2] For a discussion of these factors and others affecting shifts in low-income and high-income ownership rates, see National Association of Home Builders, *Low- & Moderate Income Housing: Progress, Problems & Prospects* (Washington D.C.: National Association of Home Builders, 1986) pp 23-8.

[3] If some households in the stratum have no holdings of the components of net worth, the average in the stratum is affected by averaging in these zero holdings. For example, in Table 4, mean home equity for all households that held $10.0-24.9 thousand in total net worth was $8.9 thousand. Some of the households in the $10.0-24.9 thousand stratum do not own homes. Thus, the $8.9 thousand should not be viewed as the average amount of home equity of homeowners in the stratum, but as the average amount of all households whether homeowners or not

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
APR	159	124	35	1,643	1,275	368	157	117	40	1,598	1,152	446
MAY	158	120	38	1,606	1,197	409	136	104	32	1,493	1,100	393
JUN	165	123	42	1,586	1,173	413	156	118	38	1,517	1,124	393
JUL	152	117	35	1,598	1,202	396	141	104	37	1,487	1,080	407
AUG	145	107	38	1,598	1,169	429	128	95	33	1,484	1,088	396
SEP$_p$	**150**	**109**	**41**	**1,669**	**1,225**	**444**	**136**	**95**	**41**	**1,493**	**1,067**	**426**
1986 TOTAL	1,805	1,262	543				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
9 MONTHS												
1987	1,276	847	429				1,215	892	323			
1986	1,422	1,104	318				1,376	928	448			
1985	1,324	903	421				1,330	837	493			
1984	1,372	943	429				1,315	844	471			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
YEAR AND MONTH	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
APR	26	28	66	40	272	305	665	401	27	32	58	41	290	305	588	415
MAY	28	28	60	37	297	309	623	377	26	28	50	33	274	284	575	360
JUN	28	35	57	43	256	287	607	436	29	29	59	40	276	266	605	370
JUL	28	26	57	41	278	255	636	429	27	27	49	37	279	255	555	398
AUG	26	29	53	37	246	279	642	431	23	24	48	33	257	250	606	389
SEP$_p$	**23**	**30**	**60**	**37**	**244**	**308**	**688**	**429**	**25**	**29**	**48**	**34**	**250**	**286**	**561**	**396**
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					560	237	753	484				
9 MONTHS																
1987	207	235	497	337					214	224	457	319				
1986	226	230	590	377					218	223	546	387				
1985	182	182	596	365					195	180	574	381				
1984	147	187	692	347					148	162	642	364				

HOUSING ACTIVITY (Cont'd.)

	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
YEAR AND MONTH		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
APR	331	72	359	5.8	224.6	112.8	27.0	84.8	1,070	675	395	135	94	41
MAY	346	62	355	6.8	228.1	112.8	26.6	88.7	1,061	670	391	131	94	37
JUN	360	58	359	6.8	224.8	113.1	25.0	86.7	1,059	669	390	147	108	39
JUL	333	56	358	6.5	226.2	114.1	23.8	88.3	1,054	674	380	143	101	42
AUG	319	58	360	6.4	227.2	114.5	23.6	89.1	1,054	677	377	151	105	46
SEP$_p$	**294**	**52**	**359**	**6.8**	**229.4**	**115.9**	**24.0**	**89.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a**	**n.a**
1986 TOTAL	3,565	749										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
9 MONTHS														
1987	2,765	542										1,091*	759*	332*
1986	2,706	598										1,110	863	404
1985	2,448	538										1,089	846	401
1984	2,250	504										1,064	835	380

*8-month totals only

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

	TOTAL					1-4 UNITS				
YEAR AND MONTH	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
JAN	$42,858	$9,748	$12,942	$18,641	$1,527	$31,421	$8,791	$10,477	$11,932	$221
FEB	44,277	10,518	13,140	18,914	1,705	31,534	10,012	10,773	10,534	215
MAR	56,192	14,311	18,044	20,960	2,877	40,870	13,876	15,084	11,357	553
APR	61,568	15,043	21,260	23,150	2,115	46,610	14,507	18,100	13,862	141
MAY	60,533	13,305	21,157	23,780	2,291	45,117	13,013	18,107	13,899	98
JUN$_p$	**62,440**	**10,121**	**23,453**	**26,026**	**2,840**	**44,607**	**9,609**	**19,489**	**15,146**	**363**
1986 TOTAL	603,948	142,884	218,118	205,503	37,443	438,441	131,628	176,063	126,936	3,814
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	242,112	63,296	109,286	68,224	1,306
6 MONTHS										
1987	328,060	73,046	109,999	131,660	13,355	240,160	69,808	92,031	76,730	1,591
1986	248,756	57,049	90,082	87,261	14,364	178,259	52,855	72,808	51,248	1,348
1985	154,903	28,410	64,727	51,319	10,447	102,173	26,236	48,224	27,322	391
1984	150,034	29,686	64,836	47,948	7,564	104,770	27,730	48,992	27,645	403

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JAN	$2,878	$529	$1,340	$877	$132	$8,559	$428	$1,125	$5,832	$1,174
FEB	2,365	222	1,144	864	135	10,378	284	1,223	7,516	1,355
MAR	2,838	71	1,430	1,004	333	12,484	364	1,530	8,599	1,991
APR	3,858	60	1,404	2,118	276	11,100	476	1,756	7,170	1,698
MAY	2,771	60	1,520	762	379	12,645	232	1,480	9,119	1,814
JUN$_p$	**3,638**	**284**	**2,028**	**1,110**	**216**	**14,195**	**228**	**1,936**	**9,770**	**2,261**
6 MONTHS										
1987	18,540	1,226	8,918	6,925	1,471	69,360	2,012	9,050	48,005	10,293
1986	15,342	2,676	7,825	3,326	1,515	55,155	1,518	9,449	32,687	11,501
1985	11,538	1,210	6,654	2,808	866	41,192	964	9,849	21,189	9,190
1984	10,347	348	6,427	2,861	711	34,917	1,608	9,417	17,442	6,450

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JAN	$29,449	$7,044	$14,068	$6,674	$1,663	$126,761	$18,703	$50,462	$41,592	$16,004
FEB	39,626	10,941	16,795	9,599	2,291	139,734	20,664	51,689	51,115	16,266
MAR	48,099	12,078	22,955	9,974	3,092	137,064	20,110	53,750	47,213	15,991
APR	49,671	11,247	24,471	10,308	3,645	138,016	19,788	56,532	44,885	16,811
MAY	53,445	11,302	24,203	14,194	3,746	149,430	22,151	57,828	51,433	18,018
JUN$_p$	**46,879**	**6,429**	**24,594**	**13,252**	**2,604**	**137,128**	**14,507**	**56,330**	**49,077**	**17,214**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
6 MONTHS										
1987	267,158	59,041	127,086	64,002	17,029					
1986	260,123	65,568	112,989	59,473	22,093					
1985	145,572	24,256	78,155	28,305	14,856					
1984	140,555	26,062	77,593	25,650	11,250					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
APR	262	142	41	79	235	15,768	150	8,947	41	3,021	44	3,800
MAY	261	149	38	74	238	15,838	157	9,265	36	2,622	45	3,951
JUN	240	121	43	76	226	15,565	127	7,566	47	3,424	52	4,575
JUL	192	117	37	67	n.a.	n.a.	123	7,341	41	2,979	52	4,566
AUG	n.a.	142	n.a.	57	n.a.	n.a.	150	8,902	n.a.	n.a.	46	3,957
SEP$_p$	**n.a.**	**99**	**n.a.**	**54**	**n.a.**	**n.a.**	**104**	**6,180**	**n.a.**	**n.a.**	**43**	**3,769**
1986 TOTAL	3,283	1,908	452	923	1,852	127,759	921	56,901	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,333	87,485	410	23,964	192	13,046	731	50,475
9 MONTHS												
1987	n.a.	1,104	n.a.	571	n.a.	n.a.	1,163	68,657	n.a.	n.a.	395	34,329
1986	1,689	640	338	711	1,355	90,675	678	39,368	246	17,671	431	33,636
1985	1,275	287	173	815	997	63,267	313	16,651	132	8,896	552	37,720
1984	1,325	232	146	947	1,149	72,441	246	12,270	161	10,345	742	49,826

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
APR	$3,208	$2,118	$112,673	$6,997	$8,167	$12,965	$9,777	$9,852	$15,050	$11,934
MAY	1,726	1,718	116,861	7,086	6,730	5,170	7,996	7,768	10,220	8,367
JUN	1,745	1,690	121,270	6,648	6,781	6,309	7,864	7,436	14,077	8,440
JUL	2,373	1,569	125,461	5,842	5,521	2,715	7,252	6,825	7,594	8,807
AUG	2,276	1,613	127,881	3,997	4,462	4,452	5,031	4,721	6,533	8,245
SEP$_p$	**1,842**	**1,743**	**130,540**	**4,083**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**16,472**	**6,499**
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,025	56,689	44,012	41,454	64,360	45,868
9 MONTHS										
1987	17,834	14,209	—	50,335	57,303	61,918	63,225	61,806	106,420	83,344
1986	27,530	22,158	—	43,902	66,762	93,863	58,255	55,821	119,355	66,211
1985	15,437	16,458	—	15,587	27,988	31,569	26,802	24,088	46,014	30,303
1984	14,461	12,376	—	9,903	17,153	18,166	11,380	10,451	27,527	21,883

*Year-to-date totals are for eight months only.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
APR	10.02%	10.11%	10.14%	9.21%	9.09%	8.35%	9.655%
MAY	10.61	10.44	10.46	9.37	9.27	8.85	10.208
JUN	10.33	10.29	10.29	9.45	9.38	8.69	9.995
JUL	10.38	10.22	10.23	9.44	9.43	8.45	9.773
AUG	10.55	10.37	10.38	9.38	9.40	8.91	10.007
SEP$_p$	**10.71**	**10.86**	**10.87**	**9.37**	**9.25**	**9.43**	**10.643**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
MAY	9.76%	9.62%	9.59%	10.05%	8.61%	6.05%	6.93%
JUN	9.69	9.70	9.65	10.05	8.40	5.99	6.92
JUL	9.62	9.64	9.59	10.17	8.45	5.76	6.65
AUG	9.79	9.73	9.70	10.37	8.76	6.15	6.71
SEP	10.43	10.29	10.25	10.84	9.42	6.61	7.37
OCT	**10.64**	**10.61**	**10.57**	**11.07**	**9.52**	**6.69**	**7.38**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
MAY	56	115	101	98
JUN	28	129	130	125
JUL	21	117	119	114
AUG	18	103	97	94
SEP	−13	101	87	83
OCT	**n.a.**	**112**	**109**	**105**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

HB450-2

JANUARY 1988

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

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Economists forecast their outlook for 1988

Republican presidential candidates discuss housing policy

Industry leaders work to streamline the mortgage process

MORTGAGE BANKING
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VOLUME 48 NUMBER 4

President
JOHN M. TEUTSCH, JR., CMB

Executive Vice President
WARREN LASKO

Senior Director of Public Affairs and Publications
JANE M. DEMARINES

Editorial Consultant
LINDA H. LUTES

Assistant Editor
LADONNA HALE CURZON

Assistant Director of Advertising
CARY SKINNER

Sales Manager
TERRI CROVATO

Production Aide
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Circulation
BENNIE MURPHY

Art Director
SARAH CLARKE HOLLANDER

Art Production
LINDA M. ROLLA

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EDITORIAL PAGE

THE COVER

What do we see in the crystal ball on this month's cover? A reflection of an ambiguous economic environment. We have "blue sky": high employment, low interest rates, and continued growth in GNP, but thick clouds portend an uncertain future. And following "black Monday" on Wall Street, many, many unanswered questions.

Jane DeMarines

Jane DeMarines
Senior Director
of Public Affairs
and Publications

THE ISSUE

January was named appropriately for "Janus" the Roman god of beginnings. Typically depicted in art as a two-faced figure, Janus looks to the future with an eye on the past.

This month we look at the beginning of the new year with forecasts from four nationally respected economists. Like Janus, each looks to the future with an eye on the past.

The year 1988 marks the beginning of a more serious round of political campaigning as the presidential election draws near. Three more candidates speak out about America's housing in our continuing interview series with the candidates.

And, we look at how the industry can open the door for simplification and automation to make the mortgage process easier. But, like Janus, industry leaders will investigate the issue from all perspectives.

And another beginning—please use *Mortgage Banking* as your forum to discuss timely issues and basics of real estate finance. We encourage you to write or call us about articles you would like to see. We hope to build a lively exchange so *Mortgage Banking* can be more valuable to you our readers.

AND A SPECIAL THANKS . . .

Last month, we published an interview with MBA chief economist Lyle E. Gramley about the stock market plunge. A special thanks goes to Tom Marder of MBA's staff who conducted and wrote the interview.

THE ARTIST

The cover photo of this month's magazine is the work of Ed Castle, a freelance photographer located in Silver Spring, Maryland. His work has appeared in the *Washington Post Magazine* and Smithsonian books. He is originally from Staten Island, New York. His specialty is product illustration.

AND NEXT ISSUE

Interviews with Top FHA/VA Officials

How the Japanese Look at the MBS

Do's and Don'ts for the Branch Manager

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1988

A PLUS OR MINUS YEAR ?

Leading economists from major secondary market agencies, investment banks and the Mortgage Bankers Association of America (MBA) forecast the outlook for real estate finance in 1988.

Macroeconomics . . . Microeconomics . . . Regression analysis . . . Probabilities . . . Economic models. A few years ago, mortgage bankers barely spoke in these economic terms. But, to survive in today's volatile economic climate, a mortgage banker must understand and speak the language. Whether it be for use in originating mortgages or developing marketing strategies, the perspective of industry economists is not to be ignored.

To give *Mortgage Banking's* readers a look into the crystal ball, we asked four respected economists about the prospects for housing and the mortgage market in 1988. Read the outlooks of Lyle E. Gramley, chief economist at the Mortgage Bankers Association of America; Thomas A. Lawler, senior economist at the Federal National Mortgage Association (Fannie Mae); Kenneth T. Rosen, consultant/manager of real estate research at Salomon Brothers and Robert Van Order, chief economist at the Federal Home Loan Mortgage Corporation (Freddie Mac).

PHOTOGRAPHY BY ED CASTLE

Lyle E. Gramley

Lyle E. Gramley, chief economist at MBA, draws on more than 30 years of experience in economics for his forecasting background.

Before coming to MBA, Gramley was a member of the President's Council of Economic Advisors prior to his appointment as a member of the Federal Reserve Board.

Gramley has worked primarily in the public sector starting as a financial economist for the Federal Reserve Board of Kansas City and later working as a staff economist at the Federal Reserve Board and director of the Board's division of research and statistics.

Gramley is also a senior staff vice president at MBA and writes regularly for Mortgage Banking *about economic issues.*

The economy headed into the fourth quarter of 1987 growing at a strong pace. A new dynamism had developed in the industrial sector of the economy fueled by a substantial increase in the physical volume of merchandise exports during the previous year and a pronounced slowdown in the physical inflow of imports other than oil. This new dynamism evidenced itself in an upswing in manufacturing employment in the third quarter of 1987, growth in industrial output at a pace not seen since early 1984 and a sizable rise over the spring and summer months in unfilled orders for durable goods. Absent the stock market crash that culminated in a 508 point decline in the Dow-Jones Industrial Average on October 19, 1987, prospects for continued economic expansion in 1988 were excellent.

The decline in equity values since the stock market peaked last August is clearly a negative for the economy in 1988, but the extent of drag is difficult to assess. Given the underlying strength of the economy, a recession seems unlikely. Indeed, the Mortgage Bankers Association of America (MBA) economics department expects real gross national product (GNP) to increase about 2¼ percent in 1988, less than in 1987 but a solid increase for the sixth year of an economic expansion. In fact, significantly faster growth would worsen the outlook for inflation, for interest rates and for housing.

> Absent the stock market crash that culminated in a 508 point decline in the Dow-Jones Industrial Average on October 19, 1987, prospects for continued economic expansion in 1988 were excellent.
>
> Lyle E. Gramley

Consumer prices are expected to increase about 4½ percent in 1988, somewhat less than last year largely because the oil price bulge of early 1987 is unlikely to be repeated. The underlying inflation rate—the rise of consumer prices excluding food and energy—is expected to worsen somewhat in 1988 because of an acceleration of wage rate increases. This will limit the room for downward movement of interest rates, even though economic growth this year will be slow. Interest rates on fixed-rate mortgages are expected to average about 11¼ percent in 1988, roughly a percentage point above 1987 levels, but below the peak levels reached in early October 1987.

Housing starts are expected to decline about 8 percent this year to an average of 1,520 thousand. New and existing home sales should be down by roughly comparable amounts. Both single-family and multifamily starts are expected to decline, but the effect of higher average mortgage interest rates will be felt somewhat more in the single-family market. Mortgage loan originations will decline considerably more than new and existing home sales because refinancing loans will be a smaller share of the total.

This is not a particularly bright outlook for mortgage lenders. The decline in the stock market, however, may obviate the need for a substantial tightening of monetary policy to avoid economic overheating this year. Indeed, the outlook for housing appears somewhat brighter after the stock market's crash than it did before. ☐

Thomas A. Lawler

Thomas A. Lawler, vice president and senior economist at Fannie Mae, has specific responsibilities for economic forecasts and analysis at the secondary marketing agency.

Lawler gained experience as senior research associate at the Federal Reserve Bank of Richmond and vice president for financial planning and budgeting at Chase Manhattan Bank before joining Fannie Mae.

In addition to his forecasting duties at Fannie Mae, Lawler also analyzes the pricing and funding of mortgage products and writes for Fannie Mae's weekly financial market newsletter.

The last two years have been none too kind to most folks in the economic forecasting profession. As 1986 came to a close, the consensus forecast called for economic growth in 1987 to be fairly weak. The Federal National Mortgage Association (Fannie Mae) thought otherwise, especially in the first part of the year. In fact, the economy performed quite well in the first three quarters of 1987 with real gross national product (GNP) growth averaging 3.6 percent. By the third quarter of 1987, the consensus forecast had become decidedly more upbeat with most economists (but not

Fannie Mae) expecting no significant slowdown in economic growth until 1989.

Then came the stock market crash of October 1987, and economists found themselves scurrying to revise their forecasts. Some economists now think that a recession is imminent; others think otherwise but look for only moderately slower economic growth; and still others have thrown up their hands, and said they cannot produce a forecast in this environment.

Fannie Mae, also, has revised its economic and financial forecast in light of the recent turmoil in the financial markets. In early October Fannie Mae was looking for near-term strength in the economy and continued upward moves in interest rates. But Fannie Mae also thought that a slowdown in the economy would emerge by spring and that interest rates would subsequently reverse most of these earlier increases. Little known was that the rate cycle expected to last for about nine months would instead take only nine days to run its course.

In Fannie Mae's view, the October plunge in the stock market will shake consumer confidence sufficiently to produce a significant slowdown in consumer spending. This slowdown, in turn, will push business inventories higher in the last quarter of 1987, and production cuts are likely in the first quarter of the year to get inventories back in line. These developments will cause GNP growth to slow to a crawl in early 1988.

The plunge in stock prices is by no means, however, a sure sign that the economy is about to enter a recession, and, in fact, Fannie Mae does not expect a recession in 1988. The stock market is only one of many leading economic indicators, and other indicators have for the most part been quite encouraging. Moreover, the Federal Reserve's quick action to inject massive amounts of liquidity into the banking system following the stock market dive should provide the economy with some offsetting monetary stimulus. The trade sector should also continue to bolster the demand for U.S. goods, especially in light of the renewed downturn in the dollar. On balance, real GNP growth of about 2 percent can be expected with growth picking up as the year progresses.

The near-term outlook for both inflation and interest rates has improved considerably, and inflation should remain fairly subdued through the early part of 1988. Interest rates have already fallen significantly since the stock market crash—although just prior to the crash they had risen sharply—and some further modest declines are expected in the months ahead. Looking further out, however, the outlook is less sanguine. Federal Reserve policy has clearly become much more stimulative since October, and with this shift the dollar has fallen sharply. While this policy response to the turmoil in the stock market seems appropriate, it does carry some risk that inflation down the road will pick up—and in fact, Fannie Mae believes that as 1988 progresses new evidence will emerge that the trend in inflation is rising. Fannie Mae expects inflation to average about 4½ percent for the year as a whole but move closer to 5 percent in the latter part of the year.

The near-term effect of the stock market crash on housing will probably be negative despite the resulting drop in interest rates. This is mainly because the heightened uncertainty caused by the market's behavior is likely to produce a wait-and-see attitude on the part of many homebuyers. The upscale market should be affected the most especially in some areas of the Northeast. As the financial markets calm down, however, the improved interest rate outlook should help single-family housing, and Fannie Mae expects declines in single-family housing starts and home sales of only about 5 percent.

> The near-term effect of the stock market crash on housing will probably be negative despite the resulting drop in interest rates.
>
> Thomas A. Lawler

The outlook for multifamily construction remains rather dim: rental vacancy rates were still rising in the third quarter of 1987 despite previous cutbacks in starts. As a result, some additional weakness in multifamily housing starts seems likely in 1988. Total housing starts of about 1.55 million units are expected for the year as a whole versus an estimated 1.65 million units in 1987.

Turning to the originations market, Fannie Mae projects a significant slowdown in one- to four-family mortgage originations for 1988. Interest rates will be higher during most of 1988 than rates were in all but a few months of 1987, and as a result the refinance market will remain fairly small. Refinancings accounted for an estimated 40 percent of the total originations market in 1986 and the first half of 1987. With this segment of the market much lower and with home sales expected to fall modestly, originations will decline by about 27 percent in 1988 to $290 billion. Adjustable rate mortgages (ARMs) will remain fairly popular during most of the year, although the ARM share will fall somewhat from its current high level and average about 50 percent of the conventional market.

After the experience of 1987 there is little certainty attached to any forecast for 1988. There are simply too many unknowns to feel even remotely confident about any forecast, and this certainty should be taken into account in formulating business plans for next year. ☐

Kenneth T. Rosen

Kenneth T. Rosen brings Wall Street/academic experience to his forecasting. Rosen presently is the consultant/manager of real estate research at Salomon Brothers in New York City. Also, he is the chairman of the Center for Real Estate and Urban Economics and *holds a professorship at the University of California, Berkeley.*

After earning a Ph.D. in economics from Massachusetts Institute of Technology, Rosen was a research associate at Harvard University and a professor of economics at Princeton University.

He writes extensively about real estate economics and finance for numerous publications.

To set the stage, let us look at the first nine months of 1987. We have seen interest rates edging up since April. Treasury bill rates were up from a low of 5 percent to 7 percent by mid-October while Treasury bonds in the same period rose from 7¼ percent to 10¼ percent. Long-term residential mortgage rates approached 12 percent. These rate rises were accompanied by vigorous economic activity and higher inflation rates. The stock market collapse in mid-October has at least temporarily altered these trends. Treasury bill rates have fallen back to the 6 percent level, and Treasury bond rates have eased back to around 9 percent.

As a result, it is likely that the economy will slow down during the next six months because of the shock to consumer confidence. The net effect for housing in 1988 will be substantially lower levels of activity in new construction, resales and refinancings.

Salomon Brothers expects new housing starts to be in the 1.4 million range, down from 1.8 million in 1986 and 1.6 million in 1987. The brunt of the decline will be in single-family homes, which should drop to slightly below 1 million starts, while multifamily homes should stabilize at approximately 400,000 starts. The market should show greater strength in the Midwest and West with the East and Northeast looking weaker, compared to the robust activity they have enjoyed in the last few years.

> If fixed rates remain above 10 percent, Salomon Brothers expects the majority of this year's originations to be adjustable rate mortgages (ARMs), which make home purchases more easily affordable.
>
> **Kenneth T. Rosen**

Existing home sales should decline to 2.9 million from an estimated 3.3 million sales in 1987.

Mortgage origination activity will be down sharply this year, reflecting the difficulty in originating fixed-rate product, a virtual cessation of refinancings and a curtailment of new construction. Total single-family originations in 1988 should be $290 billion, compared to an estimated $375 billion in 1987. If fixed rates remain above 10 percent, Salomon Brothers expects the majority of this year's originations to be adjustable rate mortgages (ARMs), which make home purchases more easily affordable.

Multifamily originations will also experience substantially reduced volume, again reflecting reductions in refinancings.

CHART 1

Top 10 in employment gain September 1986 through September 1987 (best first)	Top 10 in employment slowdown September 1986 through September 1987 (worst first)
Las Vegas, NV	Dallas, TX
Riverside/San Bernardino, CA	Austin, TX
West Palm Beach/Boca Raton, FL	Oklahoma City, OK
Orlando, FL	New Orleans, LA
Gary/Hammond, IN	Houston, TX
Portland, OR	Kansas City, MO
Wichita, KS	Denver, CO
Orange County, CA	Tulsa, OK
San Diego, CA	*Tucson, AZ
Sacramento, CA	*Scranton, PA

*Scranton and Tucson's employment actually rose slightly.

The mortgage securities market is likely to offer fewer new issues because most volume has traditionally been in fixed-rate mortgages. The supply of derivative product, however, which includes collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), strips, and interest only/principal only (IO/POs), should continue strong as these new instruments meet investor demand for controlled risk return products.

New office construction should fall from 260 million square feet of space in 1987 to 190 million square feet in 1988 (on a nationwide basis). There will be a continued adjustment to high vacancy rates in the office sector. The industrial sector should show slight declines in new construction in markets where capacity utilization is low.

Salomon Brothers expects to see a great deal of regional divergence in employment growth for 1988. Chart 1 is a sample of employment statistics compiled by city through September 1987. ☐

◆

Robert Van Order

Freddie Mac's chief economist Robert Van Order gives another perspective from a secondary market agency's viewpoint. Currently, Van Order does primary and secondary mortgage market analysis and research, macroeconomic analysis and forecasting for Freddie Mac.

Before joining Freddie Mac, Van Order worked as an economist at the Department of Housing and Urban Development (HUD) and later directed the housing finance analysis division. Van Order also has teaching experience at the University of California, Los Angeles (UCLA); Purdue University; University of Southern California; Queen's University in Canada and the American Univer-

sity in Washington, D.C. While at UCLA, he designed a MBA program about the secondary mortgage market.

When he was a senior research associate at The Urban Institute of Washington, D.C., he analyzed the mortgage markets in underdeveloped countries.

> **The crash may serve to remind people that housing is an investment whose value is less volatile than that of equities.**
>
> — **Robert Van Order**

Last October's stock market crash—the earthquake that shook the world's financial markets—has altered the economic landscape. The substantial fall in household wealth has increased the likelihood of a recession this year. However, the net effect of the stock market collapse on housing may be positive. Interest rates already have come down dramatically from their mid-October peak, and this is good news for homebuyers.

The stock market crash primarily reflected the internal dynamics of a speculative mania. Throughout the world, the bull market had reached a stage where investors were ignoring conventional valuation principles that would have kept stock prices from rising as fast as they did earlier in the year. By early October the possibility of a stock market crash became a significant risk. Once stocks began to fall the latent fear that they had been overvalued all along took over.

I expect the economy to continue to grow into the first half of 1988, with the real possibility of a recession hitting in the third quarter of the year. The recession will be a typical postwar slump, not a repeat of the 1930s. I see no signs that the economy has sustained structural damage, such as a banking system collapse.

The impetus for slowdown will come from three sectors: consumer spending, business investment and exports. Consumption will in-

Housing Starts, Home Sales and Mortgage Originations

	1987				1988				Yearly Total	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1987	1988
		actual				projected				
Housing Starts[1]	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.7	1.6
Total home sales[1]	4.3	4.3	4.1	4.0	4.0	4.0	4.0	3.9	4.2	4.0
Originations for Purchase[2] ($ bill.)	$52	$85	$77	$48	$49	$73	$78	$53	$262	$253
Refi[2] ($ bill.)	$52	$52	$15	$12	$11	$12	$12	$12	$131	$47
Total originations	$104	$137	$92	$60	$60	$85	$90	$65	$393	$300
ARM share (percent)	27	29	53	55	50	45	35	35	41	41

1. Millions of units, seasonally adjusted annual rate. In contrast, quarterly estimates of originations do contain seasonal influences.
2. Freddie Mac estimates

Figures provided by Robert Van Order, Federa Home Loan Mortgage Corporation

Major Economic Indicators

Percent change at annual rate, except as noted

Indicator	1987				1988			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	actual				projected			
Real GNP	4.4	2.3	3.8	2.9	2.8	0.5	−1.5	−1.5
Consumer prices	5.3	4.9	3.9	4.5	4.5	4.5	4.7	4.7
Unemployment rate (level)	6.7	6.2	6.0	5.9	5.9	5.9	6.0	6.4

Figures provided by Robert Van Order, Federal Home Loan Mortgage Corporation

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crease slowly, if at all, because households will take a cautious stance toward big-ticket purchases. Business investment will respond with a longer lag to lower stock prices because it takes time for firms to revise capital spending plans. However, the current state of the market means that earnings are more likely to be used to shore up the financial condition of firms (through stock buybacks, for example) than to invest in new plants and equipment. In any event firms are less likely to install new capital when they can buy used capital cheaply in the stock market. Finally, exports may weaken as the stock market collapses that took place overseas cause foreigners to reduce spending.

Given the lags in the labor market, the unemployment rate will not go up much until the fourth quarter of this year. The recession I project for 1988 does not really affect my inflation outlook—except for 1989 and beyond, when inflation may drift down somewhat because of the weaker economy. While I foresee the probability of a recession, I do not foresee a collapse on the order of the Great Depression; the monetary system is much more stable now, and the monetary authorities more experienced in the use of open market operations. I see a mild recession, one that will probably be less serious than recent downturns.

Notwithstanding the recent decline in interest rates, the bond markets remain anxious, creating difficulties for policy-makers. Even though a recession during an election year is thoroughly unpalatable, it is not clear that the means for avoiding it are available. For example, the standard fiscal antidote to a recession is a tax cut or expenditure increase, which seem to be unlikely in the current environment. Similarly, the bond markets may get nervous if there is too much money growth before we see the whites of the next recession's eyes.

I suspect that interest rates already have come down about as much as they can until it becomes clear whether or not a recession will indeed occur. If the projected recession takes hold, look for a decline in rates in the latter half of this year.

The surge in interest rates that took place through early October really threatened to hurt the housing market. Thus, the outlook for housing is slightly better now than it was before the stock market crash. On the one hand, it is true that the decline in wealth engendered by the crash will make homebuyers more cautious. However, on the other hand, interest rates are more than 100 basis points lower than they were before the crash, which makes housing more affordable. Moreover, the crash may serve to remind people that housing is an investment whose value is less volatile than that of equities.

Putting all the factors together, I expect housing starts and home sales to remain at the levels seen in recent months. Before October 19, the outlook was for the housing market to weaken. Moreover, the reduction in rates for 30-year fixed-rate loans ought to restore life to that market, reducing the adjustable rate mortgage (ARM) share. ☐

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Watch Out for the HIDDEN THREAT

Lenders Tell How

Environmental liability hides under the ground and behind the walls. Learn how lenders across the United States manage the problems of hazardous waste contamination.

Richard D. Jones

Is hazardous waste a major, growing long-term problem for the mortgage banking community—or merely a passing distraction to be relegated to the bottom of the closing checklist once some new concern captures the fancy of the academic community?

Lenders' problems with pollution and hazardous waste contamination have grown as federal, state and local governments have passed comprehensive environmental regulations and laws imposing liability for cleaning up the environment on land owners. Lenders have key concerns about the growth of regulations which impose cleanup liability on an absolute or "no fault" basis. And, public awareness keeps pace with these government regulations. In turn, this awareness creates a fear, and in some cases an unreasoned fear, which can cause market values to decrease at the slightest hint of contamination.

What are the principal hazardous waste contamination risks that the lending community faces? There are four. First is the risk that the collateral may lose value after the market learns about asbestos or hazardous waste contamination. Second is the risk that the borrower cannot repay a mortgage if the borrower must also pay the cost of cleaning up a contaminated property. Such cost can be enormous: the average cleanup cost of a federal superfund site exceeds $10 million. Third is the risk that a mortgage will lose priority to a cleanup lien. This problem exists in the seven so-called superlien states: Connecticut, New Hampshire, Maine, Massachusetts, New Jersey, Tennessee and Arkansas. In each of these states a lien granted to the state securing the cost of cleaning up hazardous waste contamination may have priority over a lender's mortgage.

Finally, and most frightening to the lending community, is the risk that the lender may become directly liable for the cost of cleaning up a contaminated site. This results from the Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA) recently amended by the Superfund Amendment and Reauthorization Act of 1986 and the two lender liabilities cases *United States of America v. Maryland Bank & Trust Company,* 24 ERC 1193 (D. Md. 1986) and *United States v. Mirabile,* 15 Envtl. L. Rep. 20992 (E.D. Pa. 1985).

Is there more smoke than fire? Perhaps. Most would agree, although perhaps no one can prove, that the recent losses resulting from the softening of the national office market far outstripped all losses attributable to hazardous waste contamination. Further, since *Maryland Bank* and *Mirabile* in 1986, no reported decisions similarly threatened lenders, and no lending institution has lost the priority of its mortgage under any of the seven state superlien statutes. Although in at least two instances, administrative proceedings resulted in settlements which were adverse to the lender.

Whether the attention currently being focused on these issues is disproportionate is a matter of opinion. However, lenders now devote substantial resources to hazardous waste contamination problems. The industry is developing new underwriting and risk management procedures and revising mortgages, guarantees, indemnities and other loan documents to address the risks of hazardous waste contamination.

ILLUSTRATION BY MICHAEL

Market share and profit hang in the balance as each institution grapples with these issues. Market share and profits may decline to reduce an institution's exposure to potential losses from hazardous waste contamination; particularly if some institutions remain willing to "throw the dice" and not address these risks. A comprehensive, rigorous hazardous waste policy will force lenders to reject loans which would otherwise be made and impose significant new transactional costs on borrowers who were hardly enthusiastic about closing costs before the advent of this problem.

To assess what, if any, consensus may be developing about the nature and severity of hazardous waste issues and what should or can be done to combat these risks, an informal survey on hazardous waste contamination policy was recently circulated in preparation for a speech to the Mortgage Bankers Association of America (MBA). This survey does not claim to scientific rigorousness. When the data was analyzed by various categories of institutions (size, location, type, market, etc.) some results suggest the sample was simply too small to allow any but the most tentative conclusions. However, the results do provide useful insight about an industry grappling with a new and significant problem. Nearly 140 lenders nationwide representing commercial banks, savings and loans, life companies, finance companies, real estate investment trusts (REITs) and other financial institutions with more than $3.5 trillion in aggregate assets provided data about hazardous waste and asbestos.

A lender can assess the risks resulting from hazardous waste contamination only by an environmental audit which investigates the property to be mortgaged, its ownership history and use.

To begin, most respondents thought the hazardous waste problem is here to stay. Of the sample, 77 percent of respondents expected problems associated with hazardous waste contamination will become more acute, 97 percent expect no improvement and only 3 percent thought the situation will improve. Further, no significant differences on this key question appeared among regions nor type nor size of institutions.

While the level of concern about hazardous waste problems is high, only 15 percent of the sample are involved in a federal or state environmental enforcement action with the problems about evenly split between hazardous waste and asbestos. Only 2 percent were named in any federal or state enforcement proceeding or litigation.

While awareness about the hazardous waste contamination problem is high, relatively few institutions have policy manuals or in-house education programs for loan officers and underwriters. Overall, only 41 percent of the sample use a policy manual to evaluate hazardous waste contamination and only 39 percent use such a tool to assess asbestos contamination. Moreover, only 15 percent have an in-house training program. This last percentage is particularly troubling because policies and policy manuals are generally ineffective without formalized training about the issues. However, a number of respondents did say that they are developing manuals and education programs, and it is likely that the number of institutions with these programs will steadily increase.

The questionnaire revealed very modest regional differences in the use of these in-house education programs, reliance on environmental audits and the incidence of loan applications rejected because of hazardous waste concerns. Not surprisingly, the larger institutions, the life companies and those companies located in regions with the oldest industrial plants and highest population densities such as the Northeast, are more likely to have such programs and procedures. However, no regional differences are large.

Based upon the policy manuals submitted with the survey, it seems clear that "case-by-case" analysis remains the watch word for the industry. One can conclude that lenders, and particularly smaller lenders, use caution about the market impact of lending policies which increase the transactional cost of closing loans or which require the rejection of loans which the lender would otherwise make.

A lender can assess the risks resulting from hazardous waste contamination only by an environmental audit which investigates the property to be mortgaged, its ownership history and use. This environmental audit should include, but not be limited to:

- The preliminary professional assessment of the risk for a site including physical examination by a professional consultant who observes the vegetation and soils, location of tanks, transformers, capacitors, pits, drying ponds or lagoons; locates piping and drains; and searches for visible asbestos in buildings, evidence of dumping, odors, presence of transformers, etc.
- The identification of ground water classification and basic information regarding the geologic and hydrogeologic characteristics of the site.
- The review of the present and prior use of the site and surrounding areas, including identification of the location of any Environmental Protection Agency (EPA) Superfund or state cleanup sites, or other known contaminated property.
- The identification of raw materials and wastes generated from current and prior industrial/agricultural use

of the site.

- The review of the records of the EPA and state or local agencies and the applicable land records for enforcement actions, citations, prior remedial action, EPA registration as a generator or transporter, etc.
- Interviews with abutters, local governmental officials and employees of any current or prior operator of the property.
- Aerial photographs of the site over time.
- Boring, soil and water testings if preliminary analysis indicates a potential problem.
- Representations and warranties from owner and tenant/users.

Is this type of protocol in general currency? Does the industry effectively assess the risk of hazardous waste contamination when it makes loans? The record appears to be spotty. A healthy 72 percent of the sample use environmental audits periodically as part of their loan underwriting. However, only 30 percent do such an audit in more than 80 percent of cases, and 35 percent of the sample use an audit less than 20 percent of the time. Again, there is little indication of regional differences or differences between commercial banks and savings and loans. The large institutions, including a preponderance of life companies, are more likely to insist on environmental audits with 93 percent of institutions larger than $50 billion in assets and 87 percent of institutions with assets of between $10 and $50 billion relying on such audits.

A truly comprehensive environmental audit will test the soil and water samples from the site. If the paper au-

SURVEY OF LENDERS ABOUT ENVIRONMENTAL LIABILITY

1. **a.** Does your institution have a written policy on how to evaluate hazardous waste contamination or other environmental risks associated with properties which will secure a loan?

Yes 41% No 56% Unsure 2% NA 1%

b. On asbestos?

Yes 39% No 54% Unsure 5% NA 2%

2. Do you have an in-house training program on hazardous waste contamination?

Yes 15% No 84% Unsure 1%

3. **a.** Do you require an environmental audit of properties you mortgage?

Yes 72% No 16% Unsure 4% Occasionally 7% NA 1%

b. If so, do you require subsurface investigations including boring and ground water and soil sampling?

Often 25% Occasionally 49% Rarely 11% NA 15%

c. On what percentage of loans is an environmental audit required?

Less than 20% 35% 20-80% 26% 80-100% 30% NA 9%

d. In what percentage of cases do you require subsurface analysis?

Less than 20% 52% 20-80% 28% 80-100% 8% NA 12%

4. When environmental reports are required, do you or your borrower typically choose the environmental engineer?

Lender 44% Borrower 42% Both 6% NA 8%

5. **a.** Does your institution retain an environmental engineering firm to assist in reviewing environmental audits submitted by borrowers?

Yes 21% No 70% Unsure 5% Occasionally 2% NA 2%

b. Do you have this engineering capacity in-house?

Yes 20% No 75% Unsure 2% NA 3%

6. Do you have guidelines on the qualifications of the environmental consultants whose reports you will accept?

Yes 35% No 58% Unsure 5% NA 2%

7. **a.** Do you require a borrower and/or guarantor indemnity on hazardous waste contamination liability or costs?

Almost Always 46% Generally 20% Occasionally 11% Always 1%

Rarely 6% Never 11% No Loan 1% NA 4%

b. When aware of a significant possibility of contamination?

Almost Always 61% Generally 7% Occasionally 5% Always 1%

Rarely 1% Never 5% No Loan 7% NA 13%

8. How often have you declined a loan application due to concern with hazardous waste contamination?

Often 7% Occasionally 46% Rarely 24% Never 21% NA 2%

9. **a.** Have you been involved in federal or state environmental enforcement problems on a property in your portfolio?

Yes 15% No 77% Unsure 7% NA 1%

b. Type of problem:

7%	Hazardous Waste
3%	Asbestos
1%	Other
4%	Hazardous Waste, Asbestos and Other
85%	NA

c. Has your institution been named in any federal or state enforcement proceeding or litigation?

Yes 2% No 64% Unsure 14% NA 20%

10. Have you increased a loan to allow a borrower to pay for the cost of environmental clean up?

Yes 10% No 83% Unsure 7%

11. **a.** Will you loan on property containing asbestos?

Yes 48% No 37% Unsure 14% Rarely 1%

b. If yes, do you require an engineering report on removal or encapsulation?

Yes 54% No 3% Unsure 4% NA 39%

12. Do you use a yield premium to offset increased environmental risk?

Yes 10% No 75% Unsure 11%

Rarely 1% Occasionally 1% NA 2%

13. Do you expect environmental contamination to become more of a problem within the next five years?

More 77% Less 3% About same 17% Unsure 2% No 1%

dit indicates possible contamination, further testing may be essential. Subsurface analysis is expensive—generally costing a minimum of $2,000 because of the need for drilling, maintenance of monitoring wells and laboratory analysis of results. This in-depth analysis is also time-consuming often requiring three to eight weeks. In case after case, the wait for the environmental audit delays closing and frustrates the borrower.

Reflecting the market's resistance to pass additional costs on to borrowers, only 8 percent of the sample require subsurface analyses 80 percent of the time or more. Fifty-two percent require an analysis in less than 20 percent of cases. Institutions with more than $10 billion in assets and those institutions located in the Northeast and Mid-Atlantic regions rely on subsurface investigation more often than other institutions. Little difference exists between commercial banks and the savings and loans; however, as a group, the life companies show the highest level of mandatory subsurface investigation with 53 percent requiring subsurface investigation in 80 percent of cases.

What happens after an environmental audit is done? How a lender uses and interprets these reports raises a number of difficult questions. Is the firm selected to do the audit qualified to perform it? In most states, environmental consulting is not a licensed profession. The increased market for environmental audits attracts many firms to the industry, but some companies, unfortunately, are not qualified. The environmental consultant must have adequate qualifications to perform a valid audit. Only 35 percent of the sample have guidelines about qualifying environmental consultants. The sample was split evenly about who should choose the consultant. If the borrower retains the consultant, the consultant should formally acknowledge the obligation and responsibility it has to the lender.

Secondly, what should the consultant's report address? Reports in circulation today range from the most sketchy windshield-type assessments to the weighty and scientific documents that are exhaustive and exhausting. While the survey did not effectively isolate data on this point, it appears that relatively few lenders specify what the elements of an acceptable report are.

A basic checklist for such a report should include:

- Statement of consultant's qualifications.
- Statement of scope of services.
- Statement of procedures used and inquiries made by the consultant.
- Technical, narrative analysis of data including copies of all laboratory reports.
- Conclusions.
- Recommendations about removing the contamination.
- Consultant's acknowledgment of lender's proposed reliance on the report and consultant's duty of care to lender (regardless of who retained the consultant).

Finally a qualified consultant finishes a report; what does it mean? The limitations and qualifications of these reports now often outweigh the substantive report. Further, the reports are increasingly quantitative and technical. To the non-technical person, the result, intentionally or unintentionally, can be completely obscure.

What to do? Twenty-one percent of the sample retained their own consultant to help them understand the various reports obtained from borrowers, and another 20 percent used in-house engineers. Using this sort of technical resource will likely expand as it becomes increasingly apparent to lenders that prudent underwriting requires understanding, and not just receiving environmental audits.

Every lender will sooner or later encounter an environmental audit identifying hazardous waste, petroleum contamination or asbestos in a property it wants to finance. Indeed, as environmental consultants become increasingly careful and audits become more comprehensive, audits will find contamination. Borrowers will force lenders to make loans on these contaminated properties. Moreover, no matter how thorough the environmental audit, lenders will make loans on the assumption it is free of contamination.

How can lenders limit or manage the resulting risks? One approach is to reject the loan. In the survey, 53 percent either often (7 percent of the time) or occasionally (46 percent of the time) reject a loan because of environmental concerns. Of course, rejecting the loan is not always a practical alternative. In many cases both borrower and lender want to make the loan even with contamination.

How can the lender manage the risk and make the loan? Indemnity from the borrower is one solution. Surprisingly, only 46 percent of the sample require borrower and guarantor indemnities "almost always." An additional 20 percent require such an indemnity "generally." This is surprising because, unlike other measures such as environmental audits that protect lenders from liability, the indemnity does not add to transactional costs. Eighty-eight percent of lenders in the Northeast region generally or almost always require the

Every lender will sooner or later encounter an environmental audit identifying hazardous waste, petroleum contamination or asbestos in a property it wants to finance.

indemnity compared with 57 percent of California institutions and 27 percent of the Midwest institutions that do so. Among institutions with assets of $50 billion or more, 85 percent generally require the indemnity while 76 percent of those institutions with assets of $10 billion to $50 billion generally require it. Indemnities vary widely. Negotiating the content of the indemnity may be the major legal battleground in mortgage lending for the foreseeable future. Many institutions use the following example of a basic indemnity:

> "To the full extent permitted by applicable law, Borrower, *(beneficial owners),* and guarantors hereby agree to defend, indemnify and hold harmless Lender, its directors, officers, employees and agents from and against any and all loss, cost, expense or liability incurred in connection with any and all claims or proceedings (whether brought by private party or governmental agencies) for bodily injury, property damage, abate or remediation, environmental damage or impairment or any other injury or damage resulting from or relating to any hazardous or toxic substance or contaminated material located upon or migrating into, from or through the Property, (whether or not the release of such materials was caused by Borrower, a tenant or subtenant or a prior owner or tenant on the Property and whether or not the alleged liability is attributable to the handling, storage, generation, transportation or disposal of such substance or the mere presence of the substance on the Property), which Lender may incur due to the making of this Loan, the exercise of any of its rights under the Loan Documents, or otherwise. For purposes of this Indemnity, hazardous or toxic substances or contaminated material includes but is not limited to asbestos, oil and petroleum products and those substances within the scope of all federal, state and local environmental laws and ordinances including the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Superfund Amendment and Reauthorization Act of 1986 and Title 22a of the Connecticut General Statutes. This indemnity will survive foreclosure of the mortgage or conveyance in lieu of foreclosure and the repayment of the loan and the discharge and release of the mortgage and other loan documents."

Other approaches require the borrower to clean up the contamination or increase the loan's interest rate to compensate for increasing risk. Surprisingly, only 10 percent of the sample increased the loan amount to pay for the cost of remediation with a larger number requiring the completion of the cleanup before loan closing. Only 12 percent increased the interest rate to offset the increased risk. As the industry gains experience in dealing with contamination risks, lenders will find new solutions for managing hazardous waste contamination while making loans.

This survey shows how the real estate lending industry struggles with the issues of hazardous waste contamination. Clearly, consensus on risk analysis and management has not yet developed. The industry's approach to these problems will evolve for some time to come. In large measure, the future course of national enforcement of our environmental laws will affect any consensus. Today lenders fear the risk of hazardous waste contamination rather than confront the risk. Rigorous enforcement of the nation's environmental laws will greatly affect the lending community. If this occurs, the industry will be challenged to respond. It can meet that challenge by thinking out comprehensive loan policies about hazardous waste, starting education programs and developing a national consensus of how the lending community can clean up contaminated properties. ☐

Richard D. Jones is a partner of the Hartford, Connecticut law firm of Pepe & Hazard. His practice focuses on real estate transactions, finance and real estate development matters with an emphasis on the construction industry. He is a member of MBA's Income Property Committee and its Environmental Issues Subcommittee.

LOAN ORIGINATION & SERVICING
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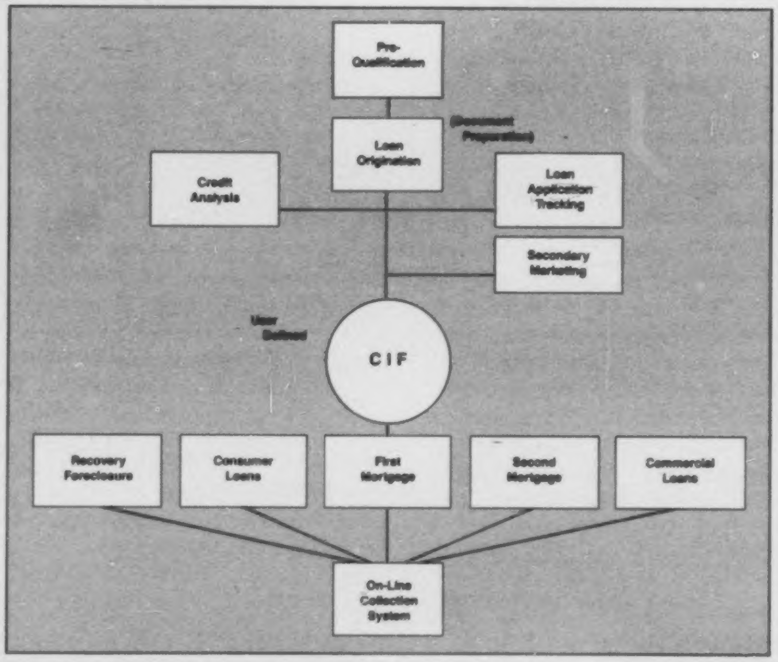
ADS
Automated Design Systems Inc.
9401 Arrowpoint Boulevard
Suite 330
Charlotte, NC 28217
(704) 522-8067



HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
MAY	158	120	38	1,606	1,197	409	136	104	32	1,493	1,100	393
JUN	165	123	42	1,586	1,173	413	156	118	38	1,517	1,124	393
JUL	152	117	35	1,598	1,202	396	141	104	37	1,487	1,080	407
AUG	144	107	37	1,585	1,170	415	128	95	33	1,502	1,106	396
SEP	149	112	37	1,648	1,241	407	137	95	42	1,502	1,072	430
OCT$_p$	**135**	**101**	**34**	**1,513**	**1,170**	**343**	**123**	**90**	**33**	**1,451**	**1,057**	**394**
1986 TOTAL	1,805	1,262	543				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
10 MONTHS												
1987	1,410	1,062	348				1,340	982	358			
1986	1,577	1,101	476				1,526	1,031	495			
1985	1,497	1,015	482				1,487	937	550			
1984	1,524	1,046	478				1,452	932	520			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
MAY	28	28	60	37	297	309	623	377	26	28	50	33	274	284	575	360
JUN	28	35	57	43	256	287	607	436	29	29	59	40	276	266	605	370
JUL	28	26	57	41	278	255	636	429	27	27	49	37	279	255	555	398
AUG	27	28	53	36	250	272	641	422	23	24	48	33	257	250	606	389
SEP	23	30	61	36	244	295	690	419	25	29	49	34	247	284	576	395
OCT$_p$	**24**	**24**	**53**	**35**	**246**	**238**	**615**	**414**	**23**	**26**	**45**	**29**	**246**	**281**	**557**	**367**
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					560	237	753	484				
10 MONTHS																
1987	232	257	551	371					237	251	504	349				
1986	253	257	650	417					244	250	603	429				
1985	215	210	668	405					222	204	639	422				
1984	168	213	760	383					168	182	704	399				

HOUSING ACTIVITY (Cont'd.)

	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
YEAR AND MONTH		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
MAY	346	62	355	6.8	228.1	112.8	26.6	88.7	1,061	670	391	131	94	37
JUN	360	58	359	6.8	224.8	113.1	25.0	86.7	1,059	669	390	147	108	39
JUL	333	55	360	6.6	226.2	114.1	23.8	88.3	1,053	672	381	143	101	42
AUG	319	57	363	6.5	228.5	114.4	23.9	90.2	1,049	672	377	152	107	45
SEP	294	54	364	6.6	228.6	116.0	23.5	89.1	1,054	676	378	143	109	34
OCT$_p$	**na**	**51**	**366**	**6.5**	**228.6**	**116.7**	**23.7**	**88.2**	**1,051**	**677**	**374**	**148**	**113**	**35**
1986 TOTAL	3,565	749										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
10 MONTHS														
1987	2,765*	652										1,382	983	399
1986	2,706	593										1,435	980	455
1985	2,448	590										1,398	956	442
1984	2,250	559										1,369	939	430

*9-month totals

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

	TOTAL					1-4 UNITS				
YEAR AND MONTH	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
FEB	$46,348	$10,518	$13,140	$20,985	$1,705	$32,897	$10,012	$10,773	$11,897	$215
MAR	58,138	14,311	18,044	22,906	2,877	42,300	13,876	15,084	12,787	553
APR	64,179	15,043	21,260	25,236	2,640	48,463	14,507	18,100	15,458	398
MAY	63,448	13,305	21,157	26,212	2,774	46,949	13,013	18,107	15,695	134
JUN	65,219	10,121	23,453	28,840	2,805	46,706	9,609	19,489	17,278	330
JUL$_p$	**57,797**	**8,182**	**19,800**	**26,869**	**2,946**	**39,563**	**7,806**	**16,733**	**14,652**	**372**
1986 TOTAL	603,948	142,884	218,118	205,503	37,443	438,441	131,628	176,063	126,936	3,814
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	242,112	63,296	109,286	68,224	1,306
7 MONTHS										
1987	400,065	81,228	129,799	171,764	17,274	289,984	77,614	108,764	101,383	2,223
1986	312,553	73,583	111,769	109,284	17,917	226,910	68,715	91,447	64,909	1,839
1985	184,388	33,458	75,969	62,370	12,591	122,467	31,227	57,317	33,431	492
1984	175,871	33,330	77,815	55,992	8,734	123,189	31,187	59,205	32,322	475

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
FEB	$2,581	$222	$1,144	$1,080	$135	$10,870	$284	$1,223	$8,008	$1,355
MAR	2,852	71	1,431	1,017	333	12,987	364	1,530	9,102	1,991
APR	3,857	60	1,404	2,146	247	11,859	476	1,756	7,632	1,995
MAY	2,771	60	1,570	807	334	13,728	232	1,480	9,710	2,306
JUN	3,768	284	2,028	1,164	292	14,745	228	1,936	10,396	2,183
JUL$_p$	**3,174**	**236**	**1,499**	**1,053**	**386**	**15,060**	**140**	**1,568**	**11,164**	**2,188**
7 MONTHS										
1987	21,896	1,462	10,417	8,158	1,859	88,185	2,152	10,618	62,223	13,192
1986	18,434	3,140	9,170	3,982	2,142	67,209	1,728	11,152	40,393	13,936
1985	13,108	1,028	7,628	3,413	1,039	48,813	1,203	11,024	25,526	11,060
1984	12,039	348	7,390	3,514	787	40,643	1,795	11,220	20,156	7,472

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
FEB	$39,709	$10,941	$16,795	$9,682	$2,291	$140,143	$20,664	$51,689	$51,524	$16,266
MAR	48,241	12,078	22,955	10,116	3,092	137,753	20,110	53,750	47,902	15,991
APR	49,919	11,247	24,471	10,556	3,645	139,074	19,788	56,532	45,943	16,811
MAY	53,969	11,302	24,203	14,730	3,734	151,197	22,151	57,828	53,200	18,018
JUN	47,463	6,429	24,594	13,836	2,604	139,189	14,507	56,330	51,138	17,214
JUL$_p$	**37,430**	**5,600**	**20,616**	**7,849**	**3,365**	**142,544**	**13,490**	**53,857**	**57,754**	**17,443**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
7 MONTHS										
1987	350,123	64,641	147,702	73,442	64,338					
1986	355,919	75,998	136,090	68,378	75,453					
1985	171,014	27,593	92,749	33,233	17,439					
1984	162,382	29,098	91,017	29,886	12,381					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
MAY	216	104	38	74	230	15,837	149	9,265	36	2,621	45	3,951
JUN	212	93	43	76	220	15,565	121	7,566	47	3,424	52	4,575
JUL	193	89	37	67	210	14,885	117	7,341	41	2,978	52	4,566
AUG	166	77	32	57	225	15,678	142	8,902	37	2,819	46	3,957
SEP	148	68	26	54	175	12,437	99	6,180	33	2,488	43	3,769
OCT$_p$	**138**	**56**	**24**	**58**	**108**	**6,999**	**79**	**4,816**	**29**	**2,183**	**42**	**3,745**
1986 TOTAL	3,283	1,908	452	923	1,852	127,759	921	56,901	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,333	87,485	410	23,964	192	13,046	731	50,475
10 MONTHS												
1987	2,115	1,114	372	629	2,030	141,797	1,187	73,801	405	29,921	438	38,075
1986	2,866	1,696	375	795	1,487	102,490	721	44,444	275	19,697	491	38,349
1985	1,858	744	202	912	1,099	71,949	327	19,081	148	10,006	624	42,862
1984	1,592	378	169	1,045	1,235	79,332	241	13,093	172	11,022	822	55,217

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued					Applications	Issued
1987										
MAY	$1,726	$1,718	$116,861	$7,086	$6,730	$5,170	$7,996	$7,768	$10,220	$8,367
JUN	1,745	1,690	121,270	6,648	6,781	6,309	7,864	7,436	14,077	8,440
JUL	2,373	1,569	125,461	5,842	5,521	2,715	7,252	6,825	7,594	8,807
AUG	2,276	1,613	127,881	3,997	4,462	4,452	5,031	4,721	6,533	8,245
SEP	1,842	1,743	130,540	4,083	n.a.	n.a.	n.a.	4,158	16,472	6,499
OCT$_p$	**1,566**	**1,278**	**133,102**	**3,819**	**n.a.**	**n.a.**	**n.a.**	**3,111**	**n.a.**	**n.a.**
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,025	56,689	44,012	41,454	64,360	45,868
10 MONTHS										
1987	19,400	15,487	—	54,154	57,303	61,918	63,225	61,806	106,420	83,344
1986	29,905	25,942	—	49,437	66,762	93,863	58,255	55,821	119,355	66,211
1985	17,170	18,225	—	17,815	27,988	31,569	26,802	24,088	46,014	30,303
1984	16,099	13,463	—	9,903	17,153	18,166	11,380	10,451	27,527	21,883

*Year-to-date totals are eight months for FHLMC, and nine months for GNMA.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
	FHA New[4]	CONVENTIONAL		CONVENTIONAL		1 Yr. ARM (1%/Yr.)	FRM Conv.
		New	Existing	New	Existing		
1987							
JUN	10.33%	10.29%	10.29%	9.45%	9.38%	8.69%	9.995%
JUL	10.38	10.22	10.23	9.44	9.43	8.45	9.773
AUG	10.55	10.37	10.38	9.38	9.41	8.91	10.007
SEP	11.22	10.86	10.87	9.37	9.25	9.43	10.643
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV$_p$	**n.a.**	**n.a.**	**n.a.**	**9.35**	**9.32**	**9.06**	**10.345**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
JUN	9.69%	9.70%	9.65%	10.05%	8.40%	5.99%	6.92%
JUL	9.62	9.64	9.59	10.17	8.45	5.76	6.65
AUG	9.79	9.73	9.70	10.37	8.76	6.15	6.71
SEP	10.43	10.29	10.25	10.84	9.42	6.61	7.37
OCT	10.64	10.61	10.57	11.07	9.52	6.69	7.89
NOV	**10.03**	**9.86**	**9.82**	**10.39**	**8.86**	**6.19**	**7.17**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
JUN	28	129	130	125
JUL	21	117	119	114
AUG	18	103	97	94
SEP	15	101	87	83
OCT	−17	112	109	105
NOV	**n.a.**	**117**	**100**	**96**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

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MORTGAGE BANKING

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Art Director
SARAH CLARKE HOLLANDER

Art Production
LINDA M. ROLLA

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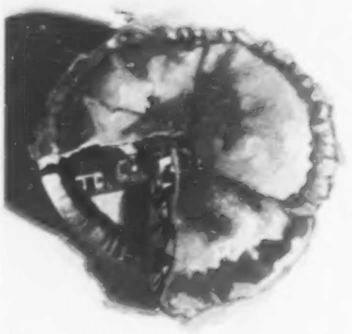
EDITORIAL PAGE



THE ISSUE

How is the mortgage pie being divided in today's market? With refinancings down to a minuscule level, 12 percent today compared to 30 to 40 percent a year ago, we are looking at a much smaller pie.

As we went to press, government insured loans were taking a smaller slice as ARMs did a rebound on the heels of rising rates.

All slices are significantly smaller than in 1987, with the number of FHA loans down by a third and privately insured loans down 13 percent.

But many factors affect the housing market, and we have a distance to go to determine if the pie is tart or sweet by year-end.

February's focus on insured loans includes two interviews with the heads of the FHA and VA loan programs—Thomas Demery and Keith Pedigo. Privately insured loans get their due in a mortgage market roundtable of industry leaders beginning on page 35.

Looking at the bigger pie of real estate investment is a freelance piece about Japanese investment in MBSs by Harvey D. Shapiro whose work has previously appeared in *Forbes, The New York Times,* and *Institutional Investor.*

Three articles on servicing address this function from a variety of perspectives: "Sell Servicing at a Profit" on page 59 tells how to value a servicing portfolio; "Measure Your Servicing Performance" on page 77 gives the results of a nationwide survey; and the Business Basics column "Quality Control Targets Loan Servicing" focuses on quality control for the servicing area.

Referral fees and RESPA regulations are on everybody's mind, and we include a commentary on page 85 about the issue by Bob Levy, executive director of the New Jersey MBA.

We think you'll find "Trouble in Paradise? Try These Fix-Ups for Resort Workouts" (page 66) and "Stop the Attack of the Equity Skimmers" (page 82) timely advice on these two issues.

And finally, we continue our series of articles aimed at managing the mortgage banking company with "Put Points on Your Branch's Scoreboard." The article advises branch and sales managers on how to get better results in managing personnel.

Jane DeMarines

Jane DeMarines
Senior Director
of Public Affairs
and Publications

THE ARTIST

The housing pie on this month's cover is by Francis Livingston. He studied at the Rocky Mountain School of Art in Denver and the Academy of Art College in San Francisco. His work has been published in *Communication Arts* and the *Society of Illustrators Annual.*

AND NEXT ISSUE

Automation Today and Tomorrow

Focus on Echo

Secondary Market Tracking

Standardization in Communication

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
JUN	163	122	41	1,586	1,173	413	156	118	38	1,517	1,124	393
JUL	153	118	35	1,598	1,202	396	141	104	37	1,487	1,080	407
AUG	143	106	37	1,585	1,170	415	129	96	33	1,502	1,106	396
SEP	152	113	39	1,668	1,261	407	137	95	42	1,502	1,072	430
OCT	137	102	35	1,523	1,170	353	124	90	34	1,463	1,056	407
NOV$_p$	**116**	**82**	**34**	**1,637**	**1,179**	**458**	**100**	**71**	**29**	**1,453**	**1,055**	**398**
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
11 MONTHS												
1987	1,531	1,146	385				1,430	1,050	380			
1986	1,692	1,184	508				1,636	1,103	533			
1985	1,621	1,094	527				1,606	1,010	596			
1984	1,651	1,135	516				1,575	1,005	570			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
JUN	28	35	57	43	256	287	607	436	29	29	59	40	276	266	605	370
JUL	28	26	57	41	278	255	636	429	27	27	49	37	279	255	555	398
AUG	27	28	53	36	250	272	641	422	23	24	48	33	257	250	606	389
SEP	25	31	61	36	257	308	698	422	25	29	49	34	247	284	576	395
OCT	25	25	53	34	251	249	612	411	23	27	45	29	248	286	561	368
NOV$_p$	**21**	**24**	**44**	**28**	**256**	**303**	**643**	**435**	**20**	**20**	**36**	**24**	**274**	**276**	**524**	**379**
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					560	237	753	484				
11 MONTHS																
1987	255	283	595	398					257	271	539	376				
1986	274	277	694	447					263	271	643	459				
1985	235	227	725	435					242	220	690	453				
1984	190	233	815	413					186	200	760	430				

HOUSING ACTIVITY (Cont'd.)

	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
YEAR AND MONTH		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
JUN	360	58	359	6.8	224.8	113.1	25.0	86.7	1,059	669	390	147	108	39
JUL	333	55	359	6.6	225.8	114.2	23.6	88.0	1,053	672	381	143	101	42
AUG	319	56	361	6.6	228.3	114.4	23.8	90.1	1,049	672	377	152	107	45
SEP	294	53	361	6.8	229.2	116.5	23.5	89.2	1,054	676	378	143	109	34
OCT	301	53	359	6.4	231.1	117.5	23.6	90.0	1,051	677	374	148	113	35
NOV$_p$	**241**	**47**	**360**	**6.5**	**239.0**	**118.6**	**24.2**	**96.2**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1986 TOTAL	3,565	750										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
11 MONTHS														
1987	3,307	639										1,382*	983*	399*
1986	3,298	700										1,582	1,086	496
1985	2,998	639										1,541	1,056	485
1984	2,694	614										1,503	1,034	469

*10-month totals

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

	TOTAL					1-4 UNITS				
YEAR AND MONTH	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAR	$58,138	$14,311	$18,044	$22,906	$2,877	$42,300	$13,876	$15,084	$12,787	$553
APR	64,179	15,043	21,260	25,236	2,640	48,463	14,507	18,100	15,458	398
MAY	63,448	13,305	21,157	26,212	2,774	46,949	13,013	18,107	15,695	134
JUN	65,219	10,121	23,453	28,840	2,805	46,706	9,609	19,489	17,278	330
JUL	57,797	8,182	19,800	26,869	2,946	39,563	7,806	16,733	14,652	372
AUG$_p$	**47,274**	**6,760**	**16,731**	**20,747**	**3,036**	**32,592**	**6,558**	**14,192**	**11,598**	**244**
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985 TOTAL	362,128	69,156	145,372	119,616	27,983	238,386	63,296	109,276	64,508	1,306
8 MONTHS										
1987	447,340	87,998	146,530	192,512	20,310	322,577	84,172	122,956	112,982	2,467
1986	376,755	88,547	133,617	133,910	20,681	273,462	82,161	109,481	79,539	2,281
1985	221,217	42,705	89,760	74,2[illegible]	14,551	148,963	39,233	68,313	40,821	596
1984	202,126	36,858	90,34[illegible]	[illegible]	10,460	140,746	34,515	68,751	36,941	539

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LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS Total	5+ UNITS Mtg. Bankers[9]	5+ UNITS S&Ls	5+ UNITS Banks[2]	5+ UNITS Life Cos.	NONRESIDENTIAL Total	NONRESIDENTIAL Mtg. Bankers[9]	NONRESIDENTIAL S&Ls	NONRESIDENTIAL Banks[2]	NONRESIDENTIAL Life Cos.
1987										
MAR	$2,852	$71	$1,431	$1,017	$333	$12,987	$364	$1,530	$9,102	$1,991
APR	3,857	60	1,404	2,146	247	11,859	476	1,756	7,632	1,995
MAY	2,771	60	1,570	807	334	13,728	232	1,480	9,710	2,306
JUN	3,768	284	2,028	1,164	292	14,745	228	1,936	10,398	2,183
JUL	3,174	236	1,499	1,053	386	15,060	140	1,568	11,164	2,188
AUG$_p$	**2,467**	**80**	**1,376**	**772**	**239**	**12,215**	**122**	**1,163**	**8,377**	**2,553**
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985 TOTAL	26,498	2,746	15,612	5,368	2,772	97,244	3,114	20,485	49,740	23,905
8 MONTHS										
1987	24,363	1,542	11,793	8,930	2,098	100,400	2,274	11,781	70,600	15,745
1986	22,110	4,002	10,881	4,781	2,446	81,183	2,384	13,255	49,590	15,954
1985	15,543	1,502	8,713	4,077	1,251	56,711	1,970	12,734	29,303	12,704
1984	13,634	348	8,611	3,864	811	47,746	1,995	12,985	23,656	9,110

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH Total	ISSUED DURING MONTH Mtg. Bankers[9]	ISSUED DURING MONTH S&Ls	ISSUED DURING MONTH Banks[2]	ISSUED DURING MONTH Life Cos.	OUTSTANDING Total	OUTSTANDING Mtg. Bankers[9]	OUTSTANDING S&Ls	OUTSTANDING Banks[2]	OUTSTANDING Life Cos.
1987										
MAR	$48,241	$12,078	$22,955	$10,116	$3,092	$137,753	$20,110	$53,750	$47,902	$15,991
APR	49,919	11,247	24,471	10,556	3,645	139,074	19,788	56,532	45,943	16,811
MAY	53,969	11,302	24,203	14,730	3,734	151,197	22,151	57,828	53,200	18,018
JUN	47,463	6,429	24,594	13,836	2,604	139,189	14,507	56,330	51,138	17,214
JUL	37,430	5,600	20,616	7,849	3,365	142,544	13,490	53,857	57,754	17,443
AUG$_p$	**33,992**	**5,713**	**19,065**	**7,284**	**1,930**	**130,926**	**13,206**	**53,639**	**46,601**	**17,480**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
8 MONTHS										
1987	340,171	70,354	166,767	80,726	22,324					
1986	357,253	86,928	156,612	86,251	27,462					
1985	205,488	36,530	109,718	38,669	20,571					
1984	181,994	31,837	103,333	33,568	13,256					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units) Total	APPLICATIONS RECEIVED (Units) FHA[3]	APPLICATIONS RECEIVED (Units) VA	APPLICATIONS RECEIVED (Units) Private	LOANS INSURED Total Units	LOANS INSURED Total Amt.	LOANS INSURED FHA Units	LOANS INSURED FHA Amt.	LOANS INSURED VA Units	LOANS INSURED VA Amt.	LOANS INSURED Private Units	LOANS INSURED Private Amt.
1987												
JUN	212	93	43	76	220	15,565	121	7,566	47	3,424	52	4,575
JUL	193	89	37	67	210	14,885	117	7,341	41	2,978	52	4,566
AUG	166	77	32	57	225	15,678	142	8,902	37	2,819	46	3,957
SEP	148	68	26	54	175	12,437	99	6,180	33	2,488	43	3,769
OCT	138	56	24	58	108	10,744	79	4,816	29	2,183	42	3,745
NOV$_p$	**119**	**49**	**21**	**49**	**679**	**9,272**	**67**	**4,093**	**26**	**1,883**	**38**	**3,296**
1986 TOTAL	3,283	1,908	452	923	1,852	127,759	921	56,901	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,333	87,485	410	23,964	192	13,046	731	50,475
11 MONTHS												
1987	2,234	1,163	393	678	2,156	150,741	1,249	77,566	431	31,804	476	41,371
1986	3,066	1,797	412	857	1,678	115,448	833	51,370	307	21,953	538	42,125
1985	2,031	822	229	980	1,237	80,920	383	22,358	174	11,700	680	46,862
1984	1,735	426	182	1,127	1,325	85,042	253	13,688	185	11,882	887	59,472

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities[1]		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued					Applications	Issued
1987										
JUN	$1,745	$1,690	$121,270	$6,648	$6,781	$6,309	$7,864	$7,436	$14,077	$8,440
JUL	2,373	1,569	125,461	5,842	5,521	2,715	7,252	6,825	7,594	8,807
AUG	2,276	1,613	127,881	3,997	4,462	4,452	5,031	4,721	6,533	8,245
SEP	1,842	1,743	130,540	4,083	3,663	2,917	4,297	4,158	16,472	6,499
OCT	1,566	1,278	133,102	3,819	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NOV$_p$	**2,899**	**1,297**	**134,633**	**2,702**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,025	56,689	44,012	41,454	64,360	45,868
11 MONTHS										
1987	22,300	16,784	—	56,856	60,966	64,835	67,522	65,964	106,420	83,344
1986	31,716	28,490	—	55,073	77,705	106,586	70,740	68,911	119,355	66,211
1985	18,367	19,848	—	20,384	31,446	34,488	31,021	28,589	46,014	30,303
1984	18,249	14,759	—	12,254	20,359	21,606	12,642	11,590	27,527	21,883

*Year-to-date totals for FHLMC and GNMA are for nine months only.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
	FHA	CONVENTIONAL		CONVENTIONAL		1 Yr. ARM	FRM
	New[4]	New	Existing	New	Existing	(1%/Yr.)	Conv.
1987							
JUL	10.38%	10.22%	10.23%	9.44%	9.43%	8.45%	9.773%
AUG	10.55	10.37	10.38	9.38	9.41	8.91	10.007
SEP	11.22	10.86	10.87	9.37	9.25	9.43	10.643
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV	n.a.	n.a.	n.a.	9.35	9.32	9.06	10.345
DEC$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**10.15**	**9.613**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
				A-Rated[7]	U.S. Government		Prime Comm. Paper
	GNMA[6]	FNMA[6]	FHLMC[6]	Utility	10-yr.	26-wk.	90-119 Days
1987							
JUL	9.62%	9.64%	9.59%	10.17%	8.45%	5.76%	6.65%
AUG	9.79	9.73	9.70	10.37	8.76	6.15	6.71
SEP	10.43	10.29	10.25	10.84	9.42	6.61	7.37
OCT	10.64	10.61	10.57	11.07	9.52	6.63	7.89
NOV	10.03	9.86	9.82	10.39	8.86	6.19	7.17
DEC	**10.04**	**9.96**	**9.92**	**10.42**	**8.99**	**6.36**	**7.61**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
JUL	21	117	119	114
AUG	18	103	97	94
SEP	15	101	87	83
OCT	−17	112	109	105
NOV	n.a.	117	100	96
DEC	**n.a.**	**n.a.**	**n.a.**	**n.a.**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

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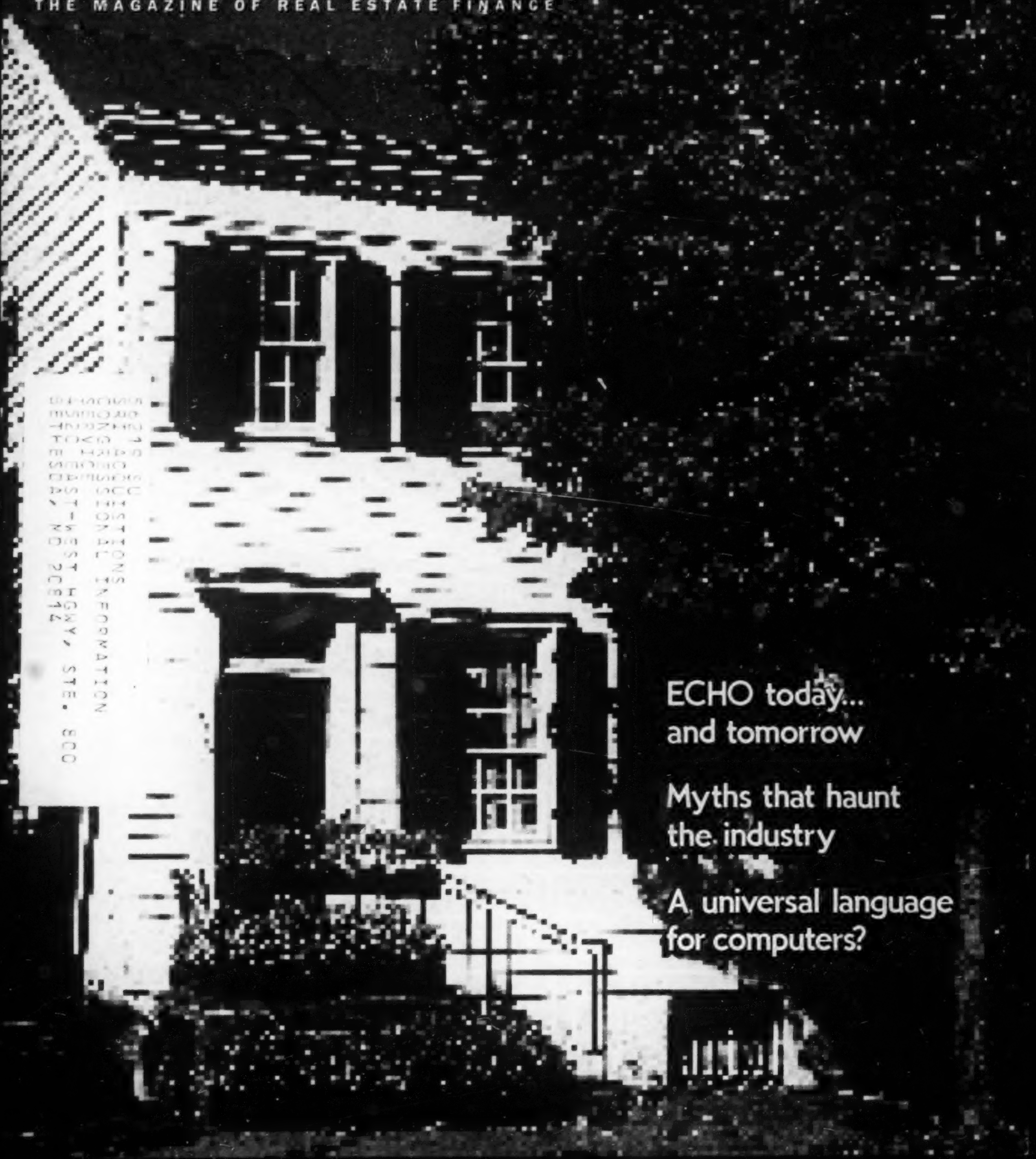
MARCH 1988

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE



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Art Production
LINDA M. ROLLA

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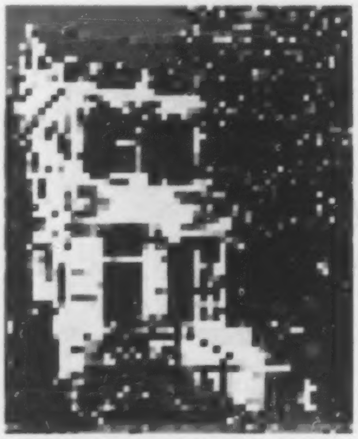
EDITORIAL PAGE



THE ISSUE

Space age Impressionism? Pointillism redefined? Art nouvelle?

We'll let you decide what to call this month's cover treatment. But let it be said when we planned our issue on automation, we weren't going to let our cover escape the technology that's become available to the industry.

Gone are the days when Disney did his own animations in excruciating repetition by hand. Gone too is the repetitious hand processing of many, but not all, aspects of the mortgage business.

Just as a computer dealt the house on our cover a "new wave" look (a technique called pixelization) computers are simplifying the many processes that go into getting a home into the hands of the homeowner. Without automation, streamlining the mortgage banking process would be like having a human designer try to put together the cover photograph by hand.

This month's issue provides a variety of articles that detail new uses of technology in our business. We begin the issue by introducing a new player in that arena. The Mortgage Banking Service Corporation using ECHO to link the industry is featured beginning on page 16. On page 36, Andrew Jezior › provides an update on the progress MBA and the industry are making on an old problem: computer standardization.

Two articles address automation of the secondary marketing function. "Doc" Baldwin details tracking systems on page 49 and Patrick Boulay, in a "past is prologue" piece advises the industry to learn from past automation errors.

The review of progress in credit report automation on page 85 outlines many of the newest products that link the mortgage banker with credit reporting agencies.

Should the mortgage banker keep automation at home or contract out? G. William Knight explains the benefits of in-house automation. Automation can help the small- and mid-sized lender compete with industry giants, according to Sig Anderman's article.

And, on another subject, mythically speaking, is Felix Beck's article on dealing with the realities of market volatility and decreased production: "Ten Myths of Mortgage Banking."

Finally, about our cover: maybe some art is better left to the hand.

Jane DeMarines

Jane DeMarines
Senior Director
of Public Affairs
and Marketing

THE ARTIST

The cover is a pixelization of a transparency, which is done through color electronic imaging. This state of the art system is referred to as scitex. The transparency was scanned into a computer and stored on a disc pack in digital form at a high resolution. Freelance photographer Susan Tull of Washington, D.C. and a graduate of Vanderbilt University took the photograph of the Georgetown townhouse.

AND NEXT ISSUE

Managing the Pipeline

The Secondary and Multifamily Markets

Hedging for 1988

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People—where they live, how they live, what they want and what they can afford—will influence your long-range plans. Don't ignore demographics in creating your business strategy for the future.

Demographics for the 1990s

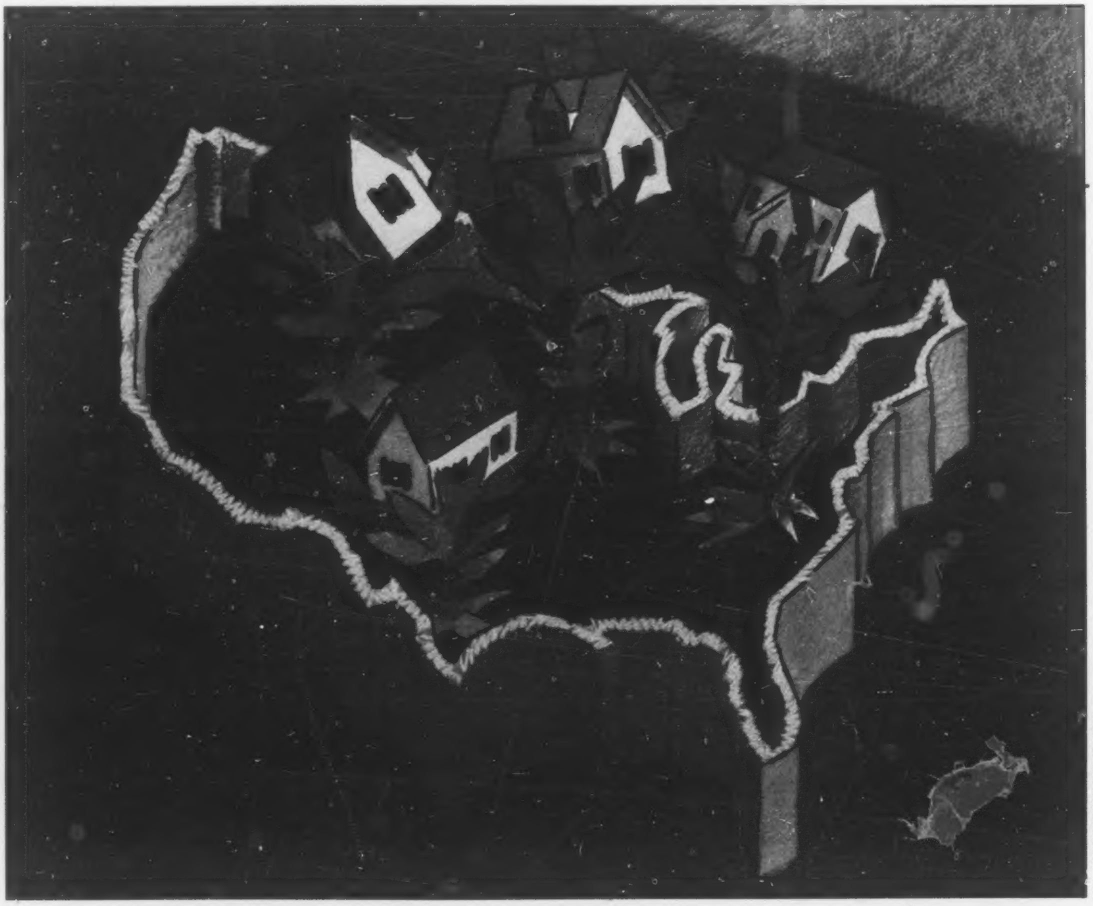


ILLUSTRATION BY STEVE McCRACKEN

Thomas M. Holloway and Richard W. Peach

One of the building blocks of a national housing policy for the remainder of this century and the start of the next is the underlying demographic trends expected for that period. Demographic trends play a critical role in what the quantity, quality and location of future demands for housing will be. Projected growth of the aggregate number of households, which is based upon population growth, the age structure of the population, and the propensity of members of the population to form households, provides a guide to the aggregate number of new housing units needed to maintain an adequate stock of housing. In turn, economic and social factors, particularly the cost of housing, influence household formation decisions. The age of the householder, marital status and income of these new households suggest what type of additional housing will be needed. Finally, migration patterns within the country indicate where this additional housing will likely be located.

Research finds that:

- Population growth slowed noticeably from the 1950s to the 1980s. Further deceleration is expected in the 1990s.
- The age distribution of the population has changed significantly, mainly as a result of the baby boom generation.
- Household formation soared in the 1970s as the baby boom generation reached the 25 to 34 age group. Household formation has slowed in the 1980s and is expected to slow further in the 1990s as the baby boom generation matures.
- In addition to the aging of the population, reduction in housing affordability will also slow the household formation rate.
- The number of new housing units that needs to be constructed to maintain an adequate supply of housing is expected to decline in the future due to the slower rate of household formations.
- After a sharp dip in the early 1980s, the percentage of new households that live in owner-occupied dwellings is expected to rise sharply. As a result, the overall homeownership rate is expected to rise.
- Regional population shifts from the Northeast and Midwest to the South and West will contribute to housing demand in spite of decelerating overall population growth. New housing must be provided in the rapidly growing regions.

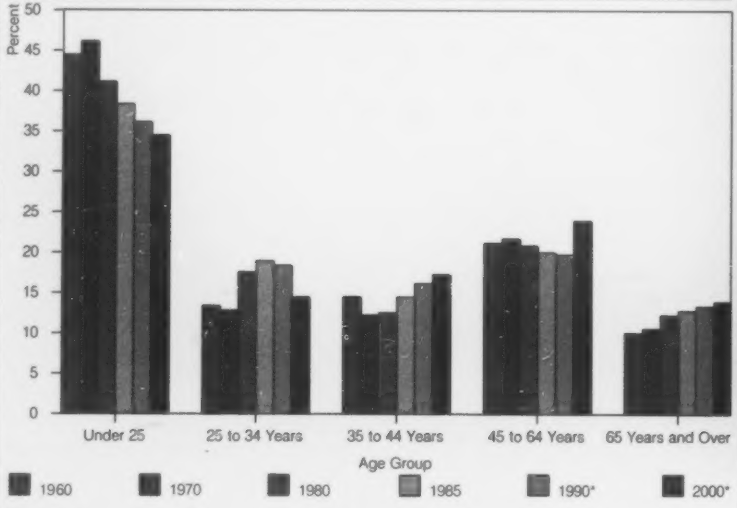
Since the middle of this century the rate of growth of the population has been slowing and, based on Bureau of the Census projections, this trend is expected to continue well into the future. Table 1 shows the U.S. population for 1960 to 1985 with projections out to the year 2000 with percentage shares of selected age groups (also depicted in Chart 1). Table 2 presents the actual and projected percentage changes in population in selected age groups over 10-year intervals from 1950 to 2000. Overall, the population growth rate is clearly decelerating. The compound annual growth rate was 1.7 percent in the 1950s, 1.3 percent in the 1960s, about 1.0 percent from 1970 to 1985, and is expected to decelerate further to about 0.6 percent by the late 1990s. The primary factor behind this slowing growth rate is the decline in the birth rate. In 1960, the birth rate in the U.S. (live births per 1,000 population per year) stood at about 24. By the late 1970s, the birth rate had fallen to just below 15. Since then, the rate has increased somewhat, but appears to have stabilized between 15 and 16.

Despite this trend of declining aggregate population growth, the changing age structure of the population has caused the number of persons in the various age groups to increase and decrease precipitously. In particular, the baby boom, a large group of individuals born between 1945 and 1964, has moved through the age structure and has had major social and economic impacts. For example, during the 1950s the number of people under 16 years of age increased by about 35 percent, nearly double the growth rate of the total population, prompting massive investment in public elementary and secondary schools. In the 1960s, the number of people aged 16 to 24 years increased by nearly 50 percent, requiring substantial investment in the nation's colleges and universities. During the 1970s, the baby boomers swelled the 25 to 34 age group, whose members establish independent households and thereby demand housing. However, from 1985 on the proportion of the population in the 25 to 34 age group is projected to decline as the baby boomers move into the 35 to 44 and 45 to 64 age groups. The population 65 years and older represents a growing share of the total—largely the result of better medical care and increased life expectancies. After 2010, growth in this age group is expected to accelerate as the baby boomers arrive. The large and growing retired population will have many significant economic and social implications and must be considered carefully when designing programs, housing or otherwise, that serve the elderly. Ultimately, these programs must be financed by those working—a declining share of the population in the future.

The effects of growth in the population and shifts in the age structure of the population on housing demand depend on the propensity of the population to form households. Chart 2 contrasts the growth in households with population growth over the period from 1960 to 2000. Growth in households peaked at about a 2 1/2

CHART 1

U.S. Population by Age
[Age Group as a Percent of Total]



* Forecast

Table 1

U.S. Population by Age

	Total, All Ages		Age Group as a Percent of Total				
Year	Millions	Compound Annual Growth Rate from Preceding Year [percent]	Under 25	25 to 34	35 to 44	45 to 64	65 and over
1960	180.7	1.7	44.6	12.7	13.4	20.0	9.2
1970	205.1	1.3	46.1	12.3	11.3	20.5	9.8
1975	216.0	1.0	44.0	14.6	10.6	20.3	10.5
1980	227.8	1.1	41.3	16.5	11.4	19.6	11.3
1985	239.3	1.0	38.3	17.6	13.3	18.8	11.9
1990	249.7	.9	36.1	17.4	15.1	18.6	12.7
1995	259.6	.8	35.0	15.6	16.2	20.1	13.1
2000	268.0	.6	34.3	13.6	16.3	22.7	13.0

Sources: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311, 519, 917, 952, and 985.

Table 2

Percent Change in Population: Total and By Age Group

	1950 to 1960	1960 to 1970	1970 to 1980	1980 to 1990	1990 to 2000
All Ages	18.7	13.5	11.1	9.6	7.3
Under 16 Years	35.3	5.3	−10.8	4.6	3.3
16 to 24 Years	9.8	48.9	19.2	−16.6	−0.2
25 to 34 Years	−4.6	10.5	48.6	15.7	−16.3
35 to 44 Years	11.9	−4.4	11.7	46.3	15.6
45 to 54 Years	17.9	13.3	−2.4	11.6	46.1
55 to 64 Years	16.6	19.6	16.5	−3.3	12.9
65 Years and Over	34.5	20.6	27.8	23.3	10.2

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311, 519, 917, and 985.

Household formation soared in the 1970s . . . slowed in the 1980s . . . and is expected to slow further in the 1990s as the baby boom generation matures.

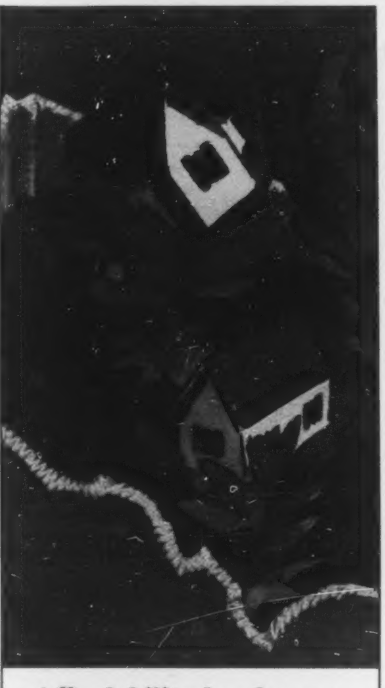
percent compound annual rate in the 1975 to 1980 period, decelerated sharply to about 1 1/2 percent in the 1980s, and is expected to further decelerate to a little over 1 percent in the 1990s. Over the entire period, the household growth rate exceeded the population growth rate.

The link between the population and the number of households, and so housing demand, lies in the headship rate. The headship rate is the ratio of household heads to population, and so the number of households equals the headship rate times the population. Table 3 and Chart 3 show household headship rates by age group for the period 1960 to 1985. Note that for any particular year the headship rate tends to increase as age increases. For this reason, an aging population increases the growth rate of the number of households relative to the growth rate of the population. Note, for example, that during the 1975 to 1980 period, when the rate of household growth peaked, large numbers of individuals were moving from the 20 to 24 year age group with a headship rate of 29 to 30 percent into the 25 to 34 age group with a headship rate of 48 to 53 percent. In fact, a recent study concludes that about one-third of the difference between the growth rate of the population and the growth rate of households between 1960 and 1986 occurred as a result of shifts in the age structure of the population.[1]

Note also that from 1960 to 1980, the age specific headship rates—the headship rate in each individual age bracket—increased in virtually every age group. Changes in several economic and social factors have been cited as the source of this upward trend. First, real per capita income rose rapidly. Because the privacy afforded by having one's own household is viewed as desirable, household formation will tend to increase as income increases. Second, expanded opportunities for women in the labor force and changes in social attitudes about divorce and marriage played a major role. Over that period there was a dramatic decline in the number of young and middle-aged adults living in married couple households due to increases in both the proportion who never married and the proportion who experienced divorce after marriage. For example, in 1970 the median ages at first marriage for men and women were 22.5 years and 20.6 years, respectively. By 1983 those median ages had increased to 24.4 years and 22.5 years, respectively. By 1979, the divorce rate (divorces per 1,000 married women 15 years of age and older) reached 22.8 having increased from 9.4 in 1962. Third, dramatic growth in social security benefits and increases in life expectancy resulting from improved medical care allowed many more elderly persons to maintain separate households. Last, but certainly not least, housing costs were relatively low during this period.

In short, the propensity to form households increased even after taking into account shifts in the age distribution of the population. From 1960 to 1967, headship rates increased in all age groups, but the increases were not concentrated in the age groups which were increasing the fastest, so the overall headship rate only rose 0.9 percentage points. On the other hand, from 1967 to 1980 there were sharp rises in headship rates for age groups occupied by the baby boom group. As a result, the overall headship rate rose about 6 percentage points over this period.

Table 4 presents actual and projected average annual increases in the number of households in total and in selected age groups for five-year intervals from 1970 through 2000. From 1970 to 1975 an average of 1.5 million new households were established each year, while from 1975 to 1980 the average annual increase was nearly 2.0 million. The bulk of these increases occurred among the baby boom age groups and the elderly.



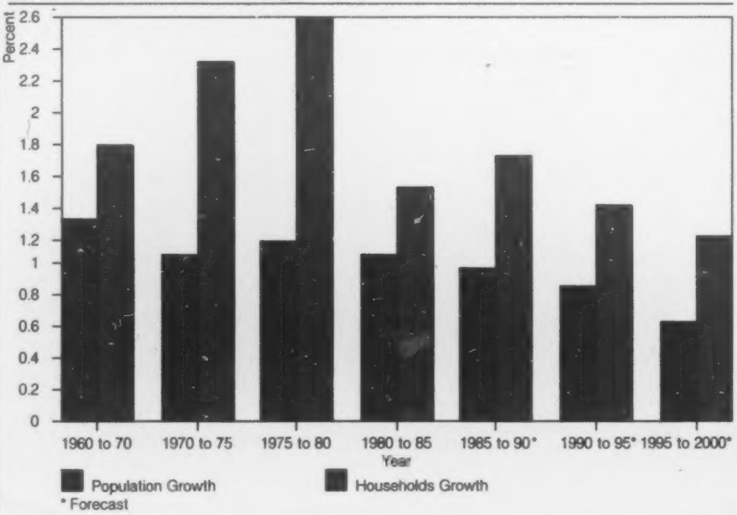
Affordability has become the main housing problem faced by the nation.

From 1980 to 1985, unfavorable economic conditions, such as relatively high unemployment and high housing costs, reduced the average annual increase in the number of households to 1.2 million. The impact of these economic factors is evident in the age specific headship rates. From 1980 to 1985 headship rates for individuals aged 15 to 34 and those 65 and over declined, so that the aggregate headship rate increased just 0.8 percentage points. Had economic conditions been more favorable, household formations would very likely have been considerably higher over this period, perhaps 1.7 million per year, since large numbers of the baby boom generation were moving into the age brackets with significantly higher headship rates.

However, while aspirations of separate households were thwarted during the 1980 to 1985 period, it is generally recognized that 1980 was a major turning point from

CHART 2

Growth in Population and Households
[Compound Annual Percent Change]



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increasing to decreasing household formations. The fastest growing age group during the decade of the 1980s is 35 to 44 years which in 1980 had a headship rate just 1.6 percentage points higher than the 30 to 34 age group. In the decade of the 1990s the fastest growing age group will be 45 to 54 years, which in 1980 had a headship rate just 0.7 percentage points above that of the 35 to 44 age group.

In addition to the age structure of the population, other factors are also likely to promote a slower rate of household formation. One of the most important is housing affordability. Real interest rates are now much higher than they were during the 1970s. Absent major changes in government policies, they are likely to remain relatively high for quite some time, thereby reducing homeownership affordability. And while rental vacancy rates have risen in recent years, there is evidence that the bulk of these vacancies are for units which rent for more than the median rent. Lower-priced rental units appear to be in short supply resulting in substantial increases in rents in that segment of the rental market. Overall, affordability has become the main housing problem faced by the nation.

With respect to marriage and di-

Table 3

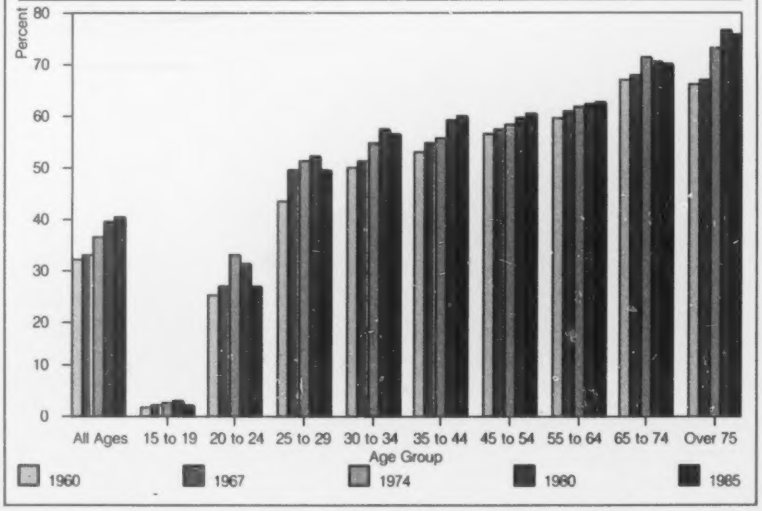
Household Heads by Age Group as a Percent of Population by Age Group (Headship Rates)

Age Group	Headship Rates 1960	1967	1974	1980	1985	Change in Headship Rates 1960 to 67	1967 to 74	1974 to 80	1980 to 85
All Ages	29.5	30.4	33.6	36.3	37.1	.9	3.2	2.7	.8
15 to 19 yrs.	1.7	1.8	2.6	3.2	2.3	.1	.8	.6	−.9
20 to 24 yrs.	22.2	24.2	29.9	28.7	24.5	2.0	5.7	−1.2	−4.2
25 to 29 yrs.	40.1	45.6	47.8	48.4	45.7	5.5	2.2	.6	−2.7
30 to 34 yrs.	45.9	47.6	51.4	53.3	52.5	1.7	3.8	1.9	−.8
35 to 44 yrs.	48.8	50.4	51.8	54.9	55.9	1.6	1.4	3.1	1.0
45 to 54 yrs.	52.7	53.2	54.8	55.6	56.4	.5	1.6	.8	.8
55 to 64 yrs.	55.9	57.2	58.0	58.3	59.0	1.3	.8	.3	.7
54 to 74 yrs.	63.1	63.9	66.6	65.8	65.5	.8	2.7	−.8	−.3
Over 75	61.4	62.8	68.7	71.9	71.3	1.4	5.9	3.2	−.6

Source: Patric H. Hendershott and Mark Smith, "Household Formations," in *The Level and Composition of Household Saving*, ed. by Patric H. Hendershott (Cambridge, Massachusetts: Ballinger Publishing Company, 1985), p. 185. Hendershott and Smith estimates are based on U.S. Bureau of the Census, Current Population Survey reports.

CHART 3

Household Headship Rates by Age Group
[Household Heads as Percent of Population]



vorce, there is evidence that as the baby boom generation passes from young adulthood to middle age, a period in which marriage is more prevalent and divorce less prevalent, the divorce rate is declining while the marriage rate is rising. For example, from 1979 to 1983 the divorce rate declined from 22.8 to 21.3.

The combined effect of these economic and demographic influences is that the annual increase in the number of households is expected to average about 1.5 million during the period from 1985 to 1990. From 1990 to 1995 this figure is expected to decline to about 1.2 million. As shown in Table 5, this slowdown in the rate of household formations implies a decline in the number of new housing units that need to be constructed. During the period from 1996 to 2000 an estimated 1.5 million housing units per year will need to be constructed to keep pace with demand, nearly 500,000 units less than during the period from 1970 to 1985.

Tables 6 and 7 and Chart 4 show that while the annual increase in the number of households is expected to decline in the future, there is also evidence that there will be a change in the mix of family versus nonfamily households. Over the period from 1970 to 1985, more than half to all new households were nonfamily households while about one of every four were traditional husband/wife family households. As a result, married couple households declined from 70.5 percent of all households to 58.1 percent. Growth of the number of families with no spouse present—a reflection of the increase in the divorce rate and a large increase in the rate of births to unmarried women—also contributed to the slower growth of married couple households.[2]

Over the remainder of this century it is expected that married couple households will represent a larger proportion of new households than was the case from 1970 to 1985. For example, from 1985 to 1995 over half of all new households will be family households with about one-third being married couple households. Again, this reflects the fact that the bulk of the new households created over this period will be headed by individuals aged 35 to 54 years, an age group where marriage is more prevalent and di-

Table 4

Average Annual Increase In Number of Households[a]
(Thousands)

Year	Total, All Ages	Age of Head of Household: Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 and Over
1970 to 1975	1,540	300	640	20	100	100	380
1975 to 1980	1,940	140	720	420	−40	240	460
1980 to 1985	1,200	−225	300	700	−5	110	320
1985 to 1990	1,480	−160	230	750	360	−150	450
1990 to 1995	1,210	−70	−250	530	720	−20	300
1995 to 2000	1,120	30	−390	290	710	330	150

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 986, Projections of the Number of Households and Families: 1986 to 2000, U.S. Government Printing Office, Washington, D.C., 1986. Projections of Number of Households Based on Series B.

[a] All numbers have been rounded.

Table 5

Estimates of Average Annual Need for New Housing Units*
[Millions of Units]

	1970 to 1985	1986 to 1990	1991 to 1995*	1996 to 2000*
Total	1.95	1.90	1.60	1.50
Increase in Households	1.65	1.60	1.30	1.20
Replacement	.30	.30	.30	.30

*Includes allowance for "normal" vacancy rate.

Source: Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September 1986.

*Forecast

TABLE 6

Marital Status of Households

	Millions				Percent of All Households			
		Family			Family			
Year	All Households	Married Couple	No Spouse Present	Nonfamily Households	Married Couple	No Spouse Present	Nonfamily Households	Divorced Persons Per 1000 Married Persons With Spouse Present
1960	52.8	39.3	5.7	7.9	74.4	10.8	15.0	35
1970	63.4	44.7	6.7	11.9	70.5	10.6	18.8	47
1975	71.1	47.0	8.6	15.6	66.1	12.1	21.9	69
1980	80.8	49.1	10.4	21.2	60.8	12.9	26.9	100
1985	86.8	50.4	12.4	24.1	58.1	14.3	27.8	128
1990*	94.2	53.0	13.7	27.5	56.3	14.5	29.2	—
1995*	100.3	54.9	14.9	30.5	54.7	14.9	30.4	—
2000*	105.9	56.3	16.0	33.7	53.2	15.1	31.8	—

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 412 and Series P-25, No. 986.

*Forecast

TABLE 7

Average Annual Increase in Households by Marital Status[a]
(thousands)

	1970 to 1985	1985 to 1990	1990 to 1995	1995 to 2000
Total	1,560 (100.0%)	1,480 (100.0%)	1,210 (100.0%)	1,120 (100.0%)
Family	760 (48.7%)	780 (53.4%)	620 (50.8%)	500 (44.6%)
Married Couple	380 (24.4%)	520 (35.6%)	380 (31.1%)	280 (25.0%)
No Spouse Present	380 (24.4%)	260 (17.8%)	240 (19.7%)	240 (19.6%)
Nonfamily	800 (51.3%)	680 (46.6%)	600 (49.2%)	620 (55.4%)

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 412 and Series P-25, No. 986.

[a] All numbers have been rounded.

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vorce less prevalent. However, the proportion of all households which are married-couple households is expected to continue to decline, albeit at a much slower rate than in the past.

Also of interest is the tenure of the new households expected to be formed over the remainder of this century. The individual household's tenure choice decision is determined by the cost of owning relative to the cost of renting. In the aggregate, the proportion of new households formed which are owners versus renters also depends on the ages of the heads of these new households, since the likelihood of ownership increases with age. It is expected that relatively high proportions of households to be formed in the future would prefer to be owners. As shown in Table 8, the proportion of new households which were owners

CHART 4

Marital Status of Households
[Percent of All Households]

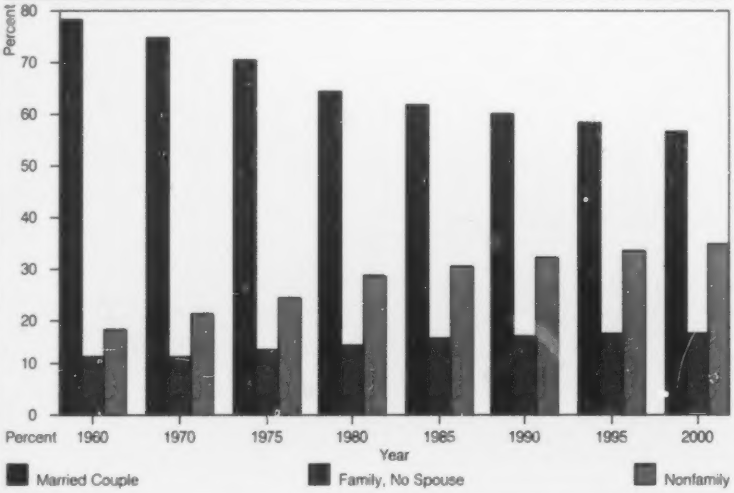

TABLE 8

Actual and Projected Additional Households by Housing Tenure

	Owner	Renter	Aggregate Homeownership Rate at End of Period
1971 to 1975	67.9%	32.1%	64.6%
1976 to 1980	72.9%	27.1%	65.6%
1981 to 1985	41.1%	58.9%	63.9%
1986 to 1990	71.0%	29.0%	64.5%
1991 to 1995*	80.0%	20.0%	65.4%
1996 to 2000*	77.0%	23.0%	66.0%

* Forecast
Source: Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September 1986.

Table 9

Supply of New Housing Units by Type, 1970 to 2000
[Millions of Units]

	Average Annual Level		
	1970 to 1985	1986 to 1990*	1991 to 2000*
Single-family Construction	1.00	1.20	1.00
Multifamily Construction	.60	.50	.40
Manufactured Housing	.35	.20	.20
Total Supply	1.95	1.90	1.60

Sources: Dwight M. Jaffee, "The Demand for Housing Units," Salomon Brothers, Inc., December 1986, and Population Reference Bureau, Inc., "Demographics and Housing in America," Population Bulletin, Vol. 41, No. 1, January 1, 1986
*Forecast

declined to 41 percent during the 1980 to 1985 period, causing the aggregate homeownership rate to decline. From 1986 to 2000, an estimated 70 to 80 percent of new households will be owners thereby boosting the aggregate ownership rate.[3]

Given the types of additional households expected to be formed in the future, it is possible to project the likely mix of future housing construction. As shown in Table 9, it is expected that while the number of units constructed declines, single-family homes will represent a larger share of the total than has been the case. Moreover, these single-family homes are likely to be larger, with more amenities, to satisfy the move-up or repeat homebuyers.

Of course, slower growth in the number of households is not the only demographic factor to consider in assessing future demand for housing. If there are significant regional shifts in the population, this factor too must be taken into consideration. Table 10 and Chart 5 show the actual and projected U.S. resident population by region. From 1960 through 1985, the share of total resident population declined in the Northeast and the Midwest, but increased in the South and West. These migration patterns are expected to continue in the future. Because people move, while houses do not, these regional shifts in the population imply more housing demand than would be the case if regional shares remained stable. Additional housing must be provided in the rapidly growing regions. ☐

Thomas M. Holloway joined the Mortgage Bankers Association of America (MBA) in May 1987 as a senior economist. Prior to joining MBA, he was the chief of the special studies branch of the bureau of economic analysis in the U.S. Department of Commerce. His work has been published in the Survey of Current Business, Journal of Money, Credit, and Banking, Public Finance Quarterly, *and the* Journal of Economic and Social Measurement.

Richard W. Peach is deputy chief economist at the Mortgage Bankers Association of America. Prior to joining MBA, he was an economist with the National Association of Realtors where he served as staff vice president for forecasting and analysis.

CHART 5

U.S. Resident Population by Region

[Percent of Total Resident Population]

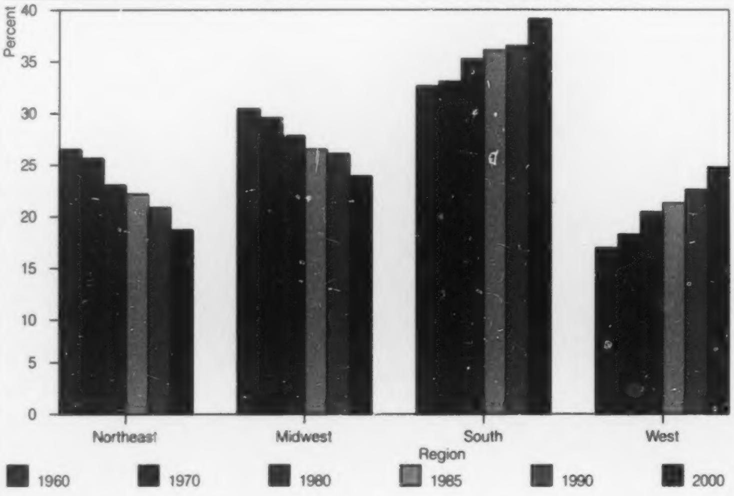

TABLE 10

U.S. Resident Population by Region

Year	Total, All Regions	Region: Northeast	Midwest	South	West
Millions:					
1960	179.3	44.7	51.6	55.0	28.1
1970	203.3	49.1	56.6	62.8	34.8
1980	226.5	49.1	58.9	75.4	43.2
1985	238.7	49.9	59.2	81.9	47.8
1990*	249.2	48.4	60.3	87.6	52.9
2000*	267.5	46.4	59.7	98.8	62.5
Percent of Total:					
1960	100.0	24.9	28.8	30.7	15.6
1970	100.0	24.1	27.8	30.9	17.1
1980	100.0	21.7	26.0	33.3	19.1
1985	100.0	20.9	24.8	34.3	20.0
1990*	100.0	19.4	24.2	35.2	21.2
2000*	100.0	17.4	22.3	37.0	23.4
Compound Annual Growth Rate (Percent):					
1960 to 1970	1.3	.9	.9	1.3	2.2
1970 to 1980	1.1	0	.4	1.8	2.2
1980 to 1985	1.1	.3	.1	1.7	2.0
1985 to 1990*	.9	−.6	.4	1.4	2.0
1990 to 2000*	.7	−.4	−.1	1.2	1.7

Northeast:	Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania
Midwest:	Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas
South:	Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas
West:	Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, Hawaii

*Forecast

---

[1] Patric H. Hendershott and Marc Smith, "Household Formations," in *The Level and Composition of Household Saving*, ed. by Patric H. Hendershott (Cambridge, Massachusetts: Billinger Publishing Company, 1985), pp. 183-203.

[2] Hendershott and Smith also found that the growth of the Aid for Dependent Children (AFDC) program contributed to the household formation rate in this marital category.

[3] The Tax Reform Act of 1986 acted to raise the relative price of housing, thereby causing slower household growth in the future. However, that act also is expected to increase the cost of renting relative to the cost of owning, thereby contributing to a higher homeownership rate in the future. See Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September, 1986.

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THE SECONDARY MARKET:

Building on the Bedrock

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APRIL 1988 VOLUME 48 NUMBER 7

COVER: THE SECONDARY MARKET

With the MBS as its bedrock, the secondary mortgage market is bristling with new products, new systems, new ideas and new frustrations. This month, *Mortgage Banking* looks at several dimensions of the innovative activity:

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PORTFOLIO

Starting with this issue, we plan to use this space to talk to our readers about the contents of *Mortgage Banking*, as well as other items of interest about our profession and our industry that arise from time to time.

Many of our articles this month are devoted to the secondary market—that vast economic mechanism that is anything but secondary to any mortgage banker. Exciting things are happening, each holding promise for the future of our industry.

We begin with a roundtable on ARM securitization and derivatives, and then we look at the Chicago Board of Trade's plans to introduce MBS futures and, of special interest to mortgage bankers, futures options. The latter subject is dealt with in two articles, one by Ralph Palazola and in the secondary market column by MBA's Michelle Campbell.

Computers are playing evermore important roles in our business, and we have looked at them in two pieces by Jon Holm and Tom LaMalfa, and Patrick Boulay. They show how new software is getting more out of the personal computer on the mortgage banker's desk, as well as how strategy planning can be helped by the machine.

Elsewhere in this issue, we talk about the intricacies of multifamily coinsurance, and what mortgage bankers can do to scrutinize applications to minimize the risk of loans that go bad.

It is also my pleasure this month to introduce *Mortgage Banking's* new editor. He is John S. DeMott, who comes to us from New York City, where he spent two decades writing about the economy and business for *Newsweek*, *Institutional Investor* and, for the last 13 years, *Time*. John knows a great deal about how magazines are put together and how we can sharpen our editorial content, focusing it on the issues of greatest concern to our readers. We look forward to drawing on each other's expertise to make *Mortgage Banking* even better than it is now.

DEMOTT

Our cover illustrator this month is Michael Gibbs, a freelancer based in Washington, D.C., whose work has appeared in several publications in the nation's capital, including *The Washington Post*.

Warren Lasko

Warren Lasko
Executive Vice President

Coming in
MAY

AFFORDABILITY

Why many people born when Levittown was born 40 years ago cannot afford to buy houses there now, and what that means to mortgage banking and the single-family housing market.

MORTGAGE BANKING
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VOLUME 48 NUMBER 7

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
AUG	143	106	37	1,583	1,167	416	129	96	33	1,502	1,106	396
SEP	152	113	39	1,679	1,260	419	137	95	42	1,502	1,072	430
OCT	139	102	37	1,538	1,172	366	125	91	34	1,463	1,056	407
NOV	119	84	35	1,631	1,150	481	101	72	29	1,469	1,065	404
DEC	86	65	21	1,404	1,090	314	94	67	27	1,361	1,055	306
JAN$_p$	**79**	**60**	**19**	**1,377**	**1,062**	**315**	**70**	**54**	**16**	**1,250**	**982**	**268**
1987 TOTAL	1,617	1,209	408				1,537	1,120	417			
1986 TOTAL	1,804	1,263	542				1,769	1,185	584			
1 MONTH												
1988	79	60	19				70	54	16			
1987	105	74	31				98	67	31			
1986	116	79	37				119	74	45			
1985	105	66	39				104	64	40			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
AUG	27	28	53	36	249	274	639	421	23	24	48	33	257	250	606	389
SEP	25	31	61	36	255	309	695	420	25	29	49	34	247	284	576	395
OCT	25	25	54	35	254	251	621	411	23	27	45	29	248	286	561	368
NOV	22	25	45	27	269	313	648	431	20	20	37	24	276	275	537	381
DEC	13	14	36	22	228	285	566	325	18	14	35	26	259	246	485	371
JAN$_p$	**14**	**8**	**32**	**25**	**291**	**223**	**469**	**394**	**13**	**9**	**28**	**21**	**270**	**232**	**414**	**334**
1987 TOTAL	269	298	634	420					274	285	578	402				
1986 TOTAL	294	296	733	483					283	290	687	510				
1 MONTH																
1988	14	8	32	25					13	9	28	21				
1987	16	16	44	29					14	14	41	29				
1986	14	10	62	29					14	12	58	34				
1985	10	8	56	32					13	8	53	31				

HOUSING ACTIVITY (Cont'd.)

	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
YEAR AND MONTH	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
AUG	317	56	361	6.6	228.3	114.4	23.8	90.1	1,049	672	377	152	107	45
SEP	294	52	364	6.9	229.2	116.5	23.5	89.2	1,052	676	376	144	110	34
OCT	301	52	365	6.6	230.7	117.4	23.6	89.7	1,049	675	374	149	114	35
NOV	241	44	364	7.0	237.8	118.6	23.9	95.3	1,050	672	378	129	97	32
DEC	220	38	368	7.6	236.2	118.2	25.1	92.9	1,030	665	365	151	109	42
JAN$_p$	**188**	**39**	**367**	**8.5**	**229.9**	**115.5**	**23.5**	**90.9**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
1987 TOTAL	3,520	674										1,665	1,192	473
1986 TOTAL	3,565	750										1,756	1,206	550
1 MONTH														
1988	188	39										N.A.	N.A.	N.A.
1987	216	53										137	91	46
1986	213	55										122	81	41
1985	190	48										119	84	35

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

	TOTAL					1-4 UNITS				
YEAR AND MONTH	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAY	$63,448	$13,305	$21,157	$26,[illegible]	$2,774	$46,949	$13,013	$18,107	$15,695	$134
JUN	65,219	10,121	23,453	28,840	2,805	46,706	9,609	19,489	17,278	330
JUL	57,805	8,182	19,808	26,869	2,946	39,571	7,806	16,741	14,652	372
AUG	47,289	6,760	16,746	20,747	3,036	32,592	6,558	14,192	11,598	244
SEP	48,467	7,526	16,761	21,072	3,108	31,318	7,070	13,595	10,463	190
OCT$_p$	**47,839**	**7,387**	**16,719**	**20,149**	**3,584**	**30,256**	**6,819**	**13,647**	**9,574**	**216**
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985 TOTAL	362,128	69,156	145,372	119,616	27,983	238,386	63,296	109,276	64,508	1,306
10 MONTHS										
1987	543,670	102,901	180,033	233,734	27,002	384,159	98,061	150,206	133,019	2,873
1986	499,131	115,566	174,666	182,165	26,734	362,097	106,344	143,141	109,507	3,105
1985	292,931	56,675	117,090	99,836	19,330	197,517	52,300	89,828	54,570	819
1984	251,599	42,968	109,644	86,723	12,264	169,478	40,172	82,828	45,776	702

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAY	$2,771	$60	$1,570	$807	$334	$13,728	$232	$1,480	$9,710	$2,306
JUN	3,768	284	2,028	1,164	292	14,745	228	1,936	10,398	2,183
JUL	3,177	236	1,502	1,053	386	15,060	140	1,565	11,164	2,188
AUG	2,467	80	1,376	772	239	12,230	122	1,178	8,377	2,553
SEP	2,608	236	1,420	574	378	14,541	220	1,746	10,035	2,540
OCT$_p$	**2,885**	**383**	**1,495**	**641**	**366**	**14,698**	**185**	**1,577**	**9,934**	**3,002**
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985 TOTAL	26,498	2,746	15,612	5,368	2,772	97,244	3,114	20,485	49,740	23,905
10 MONTHS										
1987	29,860	2,161	14,711	10,146	2,842	129,651	2,679	15,116	90,569	21,287
1986	30,848	6,063	14,711	7,237	2,837	106,186	3,159	16,814	65,421	20,792
1985	20,440	1,939	11,268	5,434	1,799	74,974	2,436	15,994	39,832	16,712
1984	16,474	401	10,574	4,576	923	65,647	2,395	16,242	36,371	10,639

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAY	$53,969	$11,302	$24,203	$14,730	$3,734	$151,196	$22,151	$57,828	$53,199	$18,018
JUN	47,463	6,429	24,594	13,836	2,604	139,189	14,507	56,330	51,138	17,214
JUL	37,430	5,600	20,620	7,849	3,365	142,544	13,490	53,857	57,754	17,443
AUG	33,902	5,713	19,056	7,203	1,930	130,911	13,206	53,644	46,601	17,460
SEP	37,020	7,705	18,912	8,374	2,029	130,901	15,834	50,892	47,917	16,258
OCT$_p$	**39,620**	**10,964**	**18,768**	**7,205**	**2,683**	**125,952**	**13,150**	**50,143**	**46,484**	**16,175**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
10 MONTHS										
1987	416,727	89,023	204,442	96,226	27,036					
1986	451,420	107,184	195,256	116,574	32,406					
1985	265,301	46,861	141,907	50,536	25,997					
1984	218,009	38,063	123,763	39,938	16,245					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
AUG	166	77	32	57	225	$15,678	142	$8,902	37	$2,819	46	$3,957
SEP	148	68	26	54	175	12,437	99	6,180	33	2,488	43	3,769
OCT	138	56	24	58	108	10,744	79	4,816	29	2,183	42	3,745
NOV	119	49	21	49	679	9,272	67	4,093	26	1,883	38	3,296
DEC	108	48	16	44	122	8,633	66	3,987	21	1,511	35	3,135
JAN$_p$	**113**	**58**	**16**	**39**	**117**	**8,018**	**74**	**4,453**	**16**	**1,143**	**27**	**2,422**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
1 MONTH												
1988	113	58	16	39	117	8,018	74	4,453	16	1,143	27	2,422
1987	204	120	38	46	175	12,142	95	5,864	38	2,717	42	3,561
1986	199	130	19	50	118	7,791	53	3,151	19	1,305	46	3,335
1985	137	56	11	70	99	6,345	26	1,497	11	723	62	4,125

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Applications	Issued
1987										
AUG	$2,276	$1,613	$127,881	$3,997	$4,462	$4,452	$5,031	$4,721	$6,533	$8,245
SEP	1,842	1,743	130,540	4,083	3,663	2,917	4,297	4,158	16,472	6,499
OCT	1,566	1,278	133,102	3,819	2,713	7,882	3,078	3,111	1,910	5,362
NOV	2,899	1,297	134,633	2,702	2,408	4,271	2,979	2,742	4,634	4,670
DEC	3,115	3,747	139,960	6,374	n.a.	n.a.	n.a.	n.a.	3,645	4,985
JAN$_p$	**2,254**	**1,267**	**140,522**	**1,683**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**1,661**	**3,919**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,720	98,300
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1 MONTH										
1988	2,254	1,267	—	1,683	n.a.	n.a.	n.a.	n.a.	1,661	3,913
1987	948	1,346	—	6,363	7,455	8,003	7,950	8,215	13,932	10,624
1986	1,315	1,188	—	3,964	4,880	5,305	3,709	3,300	10,103	5,298
1985	1,300	1,943	—	913	3,030	4,269	2,197	1,984	4,573	2,654

*Year-to-date totals for FHLMC are for ten months only.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
	FHA	CONVENTIONAL		CONVENTIONAL			
	New[4]	New	Existing	New	Existing	1 Yr. ARM (1%/Yr.)	FRM Conv.
1987							
AUG	10.55%	10.37%	10.38%	9.38%	9.40%	8.91%	10.007%
SEP	11.22	10.86	10.87	9.37	9.25	9.43	10.643
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV	10.76	10.59	10.58	9.30	9.25	9.06	10.345
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
JAN$_p$	**10.17**	**10.09**	**10.10**	**9.13**	**9.25**	**8.93**	**10.010**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
					U.S. Government		
	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	10-yr.	26-wk.	Prime Comm. Paper 90-119 Days
1987							
SEP	10.43%	10.29%	10.25%	10.84%	9.42%	6.64%	7.37%
OCT	10.64	10.61	10.57	11.07	9.52	6.69	7.89
NOV	10.03	9.86	9.82	10.39	8.86	6.19	7.17
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	**9.29**	**9.27**	**9.23**	**9.75**	**8.21**	**5.93**	**6.58**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
SEP	38	101	87	83
OCT	−17	112	109	105
NOV	37	117	100	96
DEC	21	105	97	93
JAN	12	123	111	101
FEB	**n.a.**	**108**	**106**	**102**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

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MORTGAGE BANKING

THE LONG REACH TO AFFORDABILITY

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MAY 1988 VOLUME 48 NUMBER 8

COVER: The Single-Family Market

Home sales in America went up for 35 years, then started declining as house prices outstripped incomes, even two-paycheck incomes. Studies and task force reports are emerging—and legislators are getting more nervous—as the problem reaches higher and higher into the middle class. This month, *Mortgage Banking* looks at affordability and what mortgage bankers are doing to capture their shares of traditional and move-up markets, both of which are getting smaller and smaller:

12 **A Question of Affordability** *For $65 a month, a returning World War II GI could buy a house in Levittown, but that same house would now cost his children $120,000 to $160,000. The picture is pretty much the same all over the U.S., but some solutions are in the offing.* By SHARON GELTNER

21 **Competing Low, Competing High** *Mortgage bankers talk about what can and cannot be done to help the first-time buyer, and then they look at what they should be doing to capture the move-up market.* A ROUNDTABLE

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COVER ILLUSTRATION BY JON ELLIS

PORTFOLIO

Being a mortgage banker is a risky business that, like medicine, can be as much art as craft. Intelligence and judgment are our principal tools, regardless of everything we read about sophisticated hedging programs and the like. These can help, but only that. So any mortgage banker must spend much of the day doing hand-to-hand combat with interest rate fluctuations and our industry's countless other variables, mix in a sixth sense that comes from experience, and go.

The problem with this is we can become mired in daily concerns, forgetting the broader purposes of why we are here. One of them is to create homeowners. A number of stories in this month's *Mortgage Banking*, illustrated rather dramatically on the cover by Pennsylvania freelance Jon Ellis, focus on just what a tough job that is these days as house prices outstrip incomes and make homeownership more difficult.

We begin with a look at growing unaffordability, then go to a roundtable where mortgage bankers talk about what can and cannot be done for the first-time buyer. You would be surprised at how much activity there really is out there, how much mortgage bankers are working within existing restrictions to get people into houses. In the same piece, we also talk about how our industry is going to have to change its ways if it is going to get its share of the move-up market and jumbo loans.

This issue also takes note of two important new studies that have been done about the American housing market. One is by the Harvard Joint Center for Housing Studies, and the other is by the National Housing Task Force. MBA supported both of these efforts. Studies have a way of capturing the limelight and then fading into dusty obscurity. But we feel differently about these reports. They, along with a major new effort now under way to get comprehensive housing legislation for the 1990s, will help renew a national debate on America's housing problems, especially in this presidential election year. If even a few of the recommendations become law, both housing and our industry will benefit.

Elsewhere in this issue, Tom Eggebrecht of North American tells us how his firm actually expanded out of Texas during the last couple ye[illegible] and what mortgage bankers should think about before entering new markets. Some are not so obvious. A companion piece by Tom Harman, a Connecticut lawyer, tells us what legal pitfalls to look for when we start doing business across state lines. In Forum, four Certified Mortgage Bankers debate the merits of two issues involving ARM marketing and excess servicing fees. And speaking of servicing, MBA's semiannual conference on the subject will be held next month in New York City. We've put together 20 panels on residential and income property servicing, and they'll touch on everything from compliance reporting to ways to increase servicing profits.

Warren Lasko

Warren Lasko
Executive Vice President

Coming in
JUNE

'It's War Out There'

So declared one mortgage banker when assessing the state of the industry. The last year has not been good to mortgage bankers, and much new strategy is being planned for what are indeed hard times. Chief executives of three large mortgage banking companies and four smaller ones talk about what they are doing and the future, where mortgage banking could take on an entirely different look.

MORTGAGE
BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 48 NUMBER 8

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Executive Vice President
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Jacqueline Wertime

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Editor
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Art Production
Linda M. Rolla

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
SEP	152	113	39	1,679	1,260	419	137	95	42	1,502	1,072	430
OCT	139	102	37	1,538	1,172	366	125	91	34	1,463	1,056	407
NOV	119	84	35	1,631	1,180	481	101	72	29	1,469	1,065	404
DEC	85	64	21	1,399	1,086	313	94	67	27	1,361	1,055	306
1988												
JAN	78	59	19	1,372	1,053	319	70	54	16	1,257	991	266
FEB$_p$	**90**	**68**	**22**	**1,494**	**1,150**	**344**	**91**	**67**	**24**	**1,402**	**1,073**	**329**
1987 TOTAL	1,617	1,209	408				1,537	1,120	417			
1986 TOTAL	1,804	1,263	542				1,769	1,185	584			
2 MONTHS												
1988	168	127	41				161	121	40			
1987	208	151	57				199	144	55			
1986	223	150	73				228	142	86			
1985	201	135	66				206	128	78			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
SEP	25	31	61	36	255	309	695	420	25	29	49	34	247	284	576	395
OCT	25	25	54	35	254	251	621	411	23	27	45	29	248	286	561	368
NOV	22	25	45	27	269	313	648	431	20	20	37	24	276	275	537	381
DEC	13	14	37	22	222	281	576	320	18	14	35	26	259	246	485	371
1988																
JAN	14	8	32	24	296	224	461	391	12	8	29	21	270	229	421	337
FEB$_p$	**12**	**11**	**41**	**26**	**304**	**255**	**579**	**356**	**13**	**11**	**42**	**25**	**259**	**252**	**549**	**342**
1987 TOTAL	269	298	634	420					274	285	578	402				
1986 TOTAL	294	296	733	483					283	290	687	510				
2 MONTHS																
1988	26	19	73	50					25	20	71	46				
1987	25	30	89	63					29	30	84	58				
1986	26	21	113	63					27	24	112	66				
1985	17	14	107	63					24	15	102	65				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
SEP	296	52	364	6.9	229.2	116.5	23.5	89.2	1,046	672	374	144	110	34
OCT	301	52	365	6.6	230.8	117.5	23.6	89.7	1,044	671	373	149	114	35
NOV	241	43	364	7.1	237.7	118.6	23.8	95.3	1,042	668	374	130	98	32
DEC	220	38	370	7.7	236.1	118.0	25.1	93.0	1,023	663	360	153	111	42
1988														
JAN	191	39	368	8.7	229.7	115.6	23.2	90.9	1,015	658	357	108	80	28
FEB$_p$	**220**	**53**	**368**	**7.1**	**228.7**	**114.5**	**22.2**	**92.0**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
1987 TOTAL	3,520	674										1,665	1,192	473
1986 TOTAL	3,565	750										1,756	1,206	550
2 MONTHS														
1988	411	92										N.A.	N.A.	N.A.
1987	457	112										251	167	84
1986	431	114										240	157	83
1985	383	102										239	162	77

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
JUN	$65,219	$10,121	$23,453	$28,840	$2,805	$46,706	$9,609	$19,489	$17,278	$330
JUL	57,805	8,182	19,808	26,869	2,946	39,571	7,806	16,741	14,652	372
AUG	47,289	6,760	16,746	20,747	3,036	32,592	6,558	14,192	11,598	244
SEP	48,467	7,526	16,761	21,072	3,108	31,318	7,070	13,595	10,463	190
OCT	47,839	7,387	16,719	20,149	3,584	30,256	6,819	13,647	9,574	216
NOV$_p$	**42,035**	**5,678**	**13,708**	**19,123**	**3,526**	**25,561**	**5,450**	**11,378**	**8,511**	**222**
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985 TOTAL	362,128	69,156	145,372	119,616	27,983	238,386	63,296	109,276	64,508	1,306
11 MONTHS										
1987	586,621	109,495	193,741	252,857	30,528	409,720	103,511	161,584	141,530	3,095
1986	552,350	125,211	191,479	203,426	32,234	400,999	118,480	156,775	122,223	3,521
1985	325,757	62,335	129,453	111,684	22,285	218,660	57,500	99,185	61,062	913
1984	266,922	46,279	118,863	88,361	[illegible]	183,239	43,384	89,273	49,836	746

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS Total	5+ UNITS Mtg. Bankers[9]	5+ UNITS S&Ls	5+ UNITS Banks[2]	5+ UNITS Life Cos.	NONRESIDENTIAL Total	NONRESIDENTIAL Mtg. Bankers[9]	NONRESIDENTIAL S&Ls	NONRESIDENTIAL Banks[2]	NONRESIDENTIAL Life Cos.
1987										
JUN	$3,768	$284	$2,028	$1,164	$292	$14,745	$228	$1,936	$10,398	$2,183
JUL	3,177	236	1,502	1,053	386	15,060	140	1,565	11,164	2,188
AUG	2,467	80	1,376	772	239	12,230	122	1,178	8,377	2,553
SEP	2,608	236	1,420	574	378	14,541	220	1,746	10,035	2,540
OCT	2,885	383	1,495	641	366	14,698	185	1,577	9,934	3,002
NOV$_p$	**2,360**	**151**	**1,022**	**801**	**386**	**14,114**	**77**	**1,308**	**9,811**	**2,918**
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985 TOTAL	26,498	2,746	15,612	5,368	2,772	97,244	3,114	20,485	49,740	23,905
11 MONTHS										
1987	33,136	3,228	15,733	10,947	3,228	143,765	2,756	16,424	100,380	24,205
1986	30,501	3,195	16,248	7,863	3,195	120,850	3,536	18,456	73,340	25,518
1985	22,986	2,122	12,669	6,151	2,044	84,111	2,713	17,599	44,471	19,328
1984	18,138	401	11,672	5,031	1,034	65,545	2,494	17,918	33,494	11,639

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH Total	ISSUED DURING MONTH Mtg. Bankers[9]	ISSUED DURING MONTH S&Ls	ISSUED DURING MONTH Banks[2]	ISSUED DURING MONTH Life Cos.	OUTSTANDING Total	OUTSTANDING Mtg. Bankers[9]	OUTSTANDING S&Ls	OUTSTANDING Banks[2]	OUTSTANDING Life Cos.
1987										
JUN	$47,463	$6,429	$24,594	$13,836	$2,604	$139,189	$14,507	$56,330	$51,138	$17,214
JUL	37,430	5,600	20,620	7,849	3,365	142,544	13,490	53,857	57,754	17,443
AUG	33,902	5,713	19,056	7,203	1,930	130,911	13,206	53,644	46,601	17,460
SEP	37,020	7,705	18,912	8,374	2,029	130,901	15,834	50,892	47,917	16,258
OCT	39,620	10,964	18,768	7,205	2,683	125,952	13,150	50,143	46,484	16,175
NOV$_p$	**29,292**	**4,604**	**15,454**	**6,478**	**2,756**	**125,242**	**12,484**	**47,784**	**48,840**	**16,134**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
11 MONTHS										
1987	446,017	93,627	219,896	102,702	29,792					
1986	487,347	115,447	212,367	124,408	35,125					
1985	294,645	53,497	155,874	56,013	29,261					
1984	238,436	41,090	135,312	43,255	18,779					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units) Total	FHA[3]	VA	Private	LOANS INSURED Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
SEP	148	68	26	54	175	$12,437	99	$6,180	33	$2,488	43	$3,769
OCT	138	56	24	58	108	10,744	79	4,816	29	2,183	42	3,745
NOV	119	49	21	49	679	9,272	67	4,093	26	1,883	38	3,296
DEC	108	48	16	44	122	8,633	66	3,987	21	1,511	35	3,135
1988												
JAN	110	58	14	38	117	8,018	74	4,453	16	1,143	27	2,422
FEB$_p$	**139**	**84**	**17**	**38**	**95**	**7,271**	**56**	**3,351**	**12**	**1,503**	**27**	**2,417**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
2 MONTHS												
1988	249	142	31	76	212	15,289	130	7,804	28	2,646	54	4,839
1987	451	273	83	95	342	23,664	185	11,322	82	5,969	75	6,373
1986	415	266	48	101	224	14,889	107	6,428	37	2,547	80	5,914
1985	279	114	29	136	176	11,307	40	2,251	24	1,590	112	7,466

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Applications	Issued
1987										
SEP	$1,842	$1,743	$130,540	$4,083	$3,663	$2,917	$4,297	$4,158	$16,472	$6,499
OCT	1,566	1,278	133,102	3,819	2,713	7,882	3,078	3,111	1,910	5,362
NOV	2,899	1,297	134,633	2,702	2,408	4,271	2,979	2,742	4,634	4,670
DEC	3,115	3,747	139,960	6,374	2,123	−373*	3,261	3,201	3,645	4,985
1988										
JAN	2,254	1,267	140,522	1,683	2,150	3,148	2,168	1,832	1,661	3,919
FEB$_p$	**2,516**	**2,629**	**142,797**	**3,190**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**3,775**	**4,712**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,720	98,300
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
2 MONTHS										
1988	4,770	3,896	—	4,872	n.a.	n.a.	n.a.	n.a.	5,436	8,631
1987	1,860	2,325	—	11,053	16,257	15,990	15,911	16,059	25,600	20,315
1986	3,892	2,347	—	6,942	10,406	11,349	8,314	7,568	16,076	10,303
1985	3,195	3,502	—	2,733	6,392	7,886	5,444	4,409	8,755	5,354

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
	FHA	CONVENTIONAL		CONVENTIONAL		1 Yr. ARM	FRM
	New[4]	New	Existing	New	Existing	(1%/Yr.)	Conv.
1987							
SEP	11.22%	10.86%	10.87%	9.37%	9.25%	9.43%	10.643%
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV	10.76	10.59	10.58	9.30	9.25	9.06	10.345
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR$_p$	**n.a.**	**n.a.**	**n.a.**	**9.14**	**9.08**	**8.60**	**9.737**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
					U.S. Government		
	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	10-yr.	26-wk.	Prime Comm. Paper 90-119 Days
1987							
OCT	10.64%	10.61%	10.57%	11.07%	9.52%	6.69%	7.89%
NOV	10.03	9.86	9.82	10.39	8.86	6.19	7.17
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	**9.39**	**9.33**	**9.29**	**9.91**	**8.37**	**5.91**	**6.62**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
OCT	−17	112	109	105
NOV	37	117	100	96
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	**n.a.**	**102**	**96**	**92**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

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JUNE 1988

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

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The last year has not been good to mortgage bankers, and many of them are looking to new ways to deal with what by any definition are hard times. Some of the methods are indeed innovative, others are tried and true practices that have worked during previous rollercoaster rides. Here, *Mortgage Banking* looks at the state of the industry today, how it got that way and what the future holds. Then we examine staffing and marketing problems where they are most acute—down there, in the trenches:

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A Statement of Purpose

We are using this space this month to share with you what it is we are trying to accomplish with this magazine. It is, as we say, "the magazine of real estate finance." This means that we try to address issues relating to the entire spectrum of real estate finance and of interest to all real estate professionals, wherever they may work.

This is a magazine for executives, managers and technicians. Toward that end, we try to publish articles that have enduring value in running a mortgage lending business—on how to run a business and on the technical skills that *are* the business.

About two-thirds of our articles will deal with the internal aspects of mortgage lending—making loans, servicing them, marketing, pricing, hedging and warehouse activities. We will also, however, try to balance our editorial content and relate it to the varied directions and dimensions of real estate finance. In that vein, we will have contributions on national legislative developments, demographic and economic trends and emerging issues in education.

We will do all of this in plain English—clear, concise and to the point, and technically precise.

Mortgage Banking is *not* a monthly news magazine. It will not carry gossip, rumors or trendy descriptions. But it will contain interviews with, and profiles about, people and how they see their business and its future.

I invite your letters commenting on this view of your industry's professional journal, and I welcome your suggestions.

Warren Lasko

Warren Lasko
Executive Vice President

MORTGAGE
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VOLUME 48 NUMBER 9

President
JOHN M. TEUTSCH, JR., CMB

Executive Vice President
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Vice President of Communications
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TERRI CROVATO

Production Aide
MOLLY GEREMIA

Circulation
BENNIE MURPHY

Art Director
SARAH CLARKE HOLLANDER

Art Production
LINDA M. ROLLA

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
OCT	140	103	37	1,538	1,172	366	124	90	34	1,463	1,056	407
NOV	119	83	36	1,661	1,180	481	101	72	29	1,469	1,065	404
DEC	85	64	21	1,399	1,086	313	94	67	27	1,361	1,055	306
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,257	991	266
FEB	90	67	23	1,514	1,163	351	93	68	25	1,422	1,079	343
MAR$_p$	**131**	**107**	**24**	**1,543**	**1,244**	**299**	**138**	**106**	**32**	**1,452**	**1,105**	**347**
1987 TOTAL	1,620	1,211	409				1,539	1,124	415			
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
3 MONTHS												
1988	300	234	66				301	228	73			
1987	349	258	91				355	256	99			
1986	374	254	120				382	241	141			
1985	345	235	110				354	225	129			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
YEAR AND MONTH	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
OCT	25	25	54	35	254	251	622	411	23	27	45	29	248	286	561	368
NOV	22	25	45	27	269	313	648	431	20	20	37	24	276	275	537	381
DEC	13	14	37	22	222	281	576	320	18	14	35	26	259	246	485	371
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	270	229	421	337
FEB	12	11	41	26	311	259	585	359	13	11	43	26	259	256	559	348
MAR$_p$	**23**	**19**	**52**	**37**	**300**	**266**	**551**	**426**	**26**	**24**	**53**	**36**	**303**	**276**	**516**	**357**
1987 TOTAL	269	298	634	420					274	285	578	402				
1986 TOTAL	294	296	733	483					283	290	687	510				
3 MONTHS																
1988	49	38	125	87					49	38	125	87				
1987	47	54	145	103					47	54	146	103				
1986	47	42	182	103					47	44	178	113				
1985	33	32	181	100					46	32	171	105				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
OCT	301	52	365	6.6	231.0	117.5	23.6	89.9	1,044	671	373	149	114	35
NOV	241	43	364	7.1	237.7	118.6	23.8	95.3	1,042	668	374	130	98	32
DEC	220	37	370	7.6	236.1	118.0	25.1	93.0	1,016	659	357	155	112	43
1988														
JAN	191	41	367	8.2	229.9	115.7	23.1	91.1	1,007	654	353	110	82	28
FEB	220	54	365	7.1	228.8	114.7	22.1	92.0	986	641	345	98	70	28
MAR$_p$	**303**	**69**	**370**	**7.0**	**230.6**	**117.0**	**21.3**	**92.3**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
1987 TOTAL	3,520	671										1,665	1,192	473
1986 TOTAL	3,565	750										1,756	1,206	550
3 MONTHS														
1988	714	92										N.A.	N.A.	N.A.
1987	784	112										367	240	127
1986	708	114										359	236	123
1985	645	102										345	234	111

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUL	$60,262	$8,182	$19,808	$29,326	$2,946	$41,277	$7,806	$16,741	$16,358	$372
AUG	49,197	6,760	16,746	22,655	3,036	34.025	6,558	14,192	13,031	244
SEP	50,316	7,526	16,761	22,921	3,108	32,472	7,070	13,595	11,617	190
OCT	49,520	7,387	16,719	21,830	3,584	31,286	6,819	13,647	10,604	216
NOV	43,646	5,678	13,708	20,552	3,526	26,461	5,450	11,378	9,411	222
DEC$_p$	**53,124**	**6,794**	**16,617**	**24,613**	**5,100**	**29,492**	**6,582**	**12,238**	**10,505**	**167**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,343	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
12 MONTHS										
1987	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985	362,178	69,156	145,373	119,616	28,033	238,386	63,296	109,276	64,508	1,306
1984	295,061	50,816	129,482	97,775	16,988	199,228	47,589	96,187	54,626	826

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUL	$3,441	$236	$1,502	$1,317	$386	$15,544	$140	$1,565	$11,651	$2,188
AUG	2,684	80	1,376	989	239	12,488	122	1,178	8,635	2,553
SEP	2,799	236	1,420	765	378	15,045	220	1,746	10,539	2,540
OCT	3,079	383	1,495	835	366	15,155	185	1,577	10,391	3,002
NOV	2,508	151	1,022	949	386	14,495	77	1,308	10,192	2,918
DEC$_p$	**3,503**	**97**	**1,986**	**928**	**492**	**20,129**	**115**	**2,393**	**13,180**	**4,441**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
12 MONTHS										
1987	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985	26,498	2,746	15,612	5,368	2,772	97,294	3,114	20,485	49,740	23,955
1984	20,588	443	13,160	5,519	1,466	75,245	2,784	20,135	37,630	14,696

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUL	$37,564	$5,600	$20,620	$7,943	$3,401	$142,685	$13,490	$53,530	$58,019	$17,646
AUG	34,176	5,713	19,056	7,461	1,946	131,700	13,206	53,644	47,210	17,640
SEP	37,287	7,705	18,912	8,610	2,060	132,131	15,834	50,892	48,965	16,440
OCT	39,826	10,964	18,768	7,379	2,715	126,818	13,150	50,143	47,170	16,355
NOV	29,594	4,604	15,454	6,675	2,861	126,410	12,484	47,784	49,783	16,359
DEC$_p$	**27,463**	**2,907**	**15,561**	**6,279**	**2,716**	**112,321**	**6,711**	**44,927**	**46,795**	**13,888**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
12 MONTHS										
1987	475,252	96,534	235,457	110,306	32,955					
1986	532,999	128,480	231,915	133,504	39,100					
1985	322,779	59,551	170,755	60,001	32,472					
1984	260,427	44,893	146,184	47,795	21,555					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
OCT	138	56	24	58	150	$10,744	79	$4,816	29	$2,183	42	$3,745
NOV	119	49	21	49	131	9,272	67	4,093	26	1,883	38	3,296
DEC	108	48	16	44	122	8,603	66	3,987	21	1,511	35	3,105
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR$_p$	**175**	**109**	**15**	**51**	**98**	**7,036**	**49**	**2,927**	**19**	**1,381**	**30**	**2,726**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
3 MONTHS												
1988	424	251	46	127	320	22,553	179	10,731	55	4,027	86	7,795
1987	759	463	132	164	588	40,555	333	20,456	141	10,387	114	9,712
1986	720	477	81	162	349	23,198	174	10,461	60	4,169	115	8,568
1985	446	179	45	222	273	17,539	74	4,163	37	2,416	162	10,960

SECONDARY MARKET ACTIVITY

(Dollars in millions)

	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
YEAR AND MONTH	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Applications	Issued
1987										
OCT	$1,566	$1,278	$133,102	$3,819	$2,713	$7,882	$3,078	$3,111	$1,911	$5,787
NOV	2,899	1,297	134,633	2,702	2,408	4,271	2,979	2,742	4,636	4,685
DEC	3,115	3,747	139,960	6,374	2,123	−373*	3,261	3,201	3,644	4,696
1988										
JAN	2,254	1,267	140,522	1,683	2,150	3,867	2,168	1,832	1,651	3,790
FEB	2,516	2,629	142,797	3,190	1,869	5,630	3,293	2,414	3,694	3,616
MAR$_p$	**3,823**	**2,776**	**145,242**	**3,352**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**3,458**	**2,516**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
3 MONTHS										
1988	8,593	6,672	—	8,225	n.a.	n.a.	n.a.	n.a.	8,803	9,922
1987	4,665	3,760	—	15,681	25,642	30,307	25,305	25,204	36,473	30,535
1986	5,809	3,757	—	9,209	17,619	18,477	13,632	13,470	30,929	15,363
1985	4,831	5,758	—	3,820	9,972	11,339	8,676	7,524	12,512	8,126

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
		CONVENTIONAL		CONVENTIONAL			
YEAR AND MONTH	FHA New[4]	New	Existing	New	Existing	1 Yr. ARM (1%/Yr.)	FRM Conv.
1987							
OCT	10.90%	10.84%	10.87%	9.25%	9.22%	9.71%	11.030%
NOV	10.76	10.59	10.58	9.30	9.25	9.06	10.345
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR$_p$	**n.a.**	**n.a.**	**n.a.**	**9.06**	**9.29**	**8.86**	**10.035**

	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
					U.S. Government		
YEAR AND MONTH	GNMA[6]	FNMA[5]	FHLMC[6]	A-Rated[7] Utility	10-yr.	26-wk.	Prime Comm. Paper 90-119 Days
1987							
NOV	10.03%	9.86%	9.82%	10.39%	8.86%	6.19%	7.17%
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	**9.72**	**9.62**	**9.59**	**10.23**	**8.72**	**6.21**	**6.86**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
OCT	−17	112	109	105
NOV	37	117	100	96
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	**n.a.**	**100**	**90**	**87**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

JULY 1988

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MORTGAGE BANKING

THE MAGAZINE
OF REAL ESTATE
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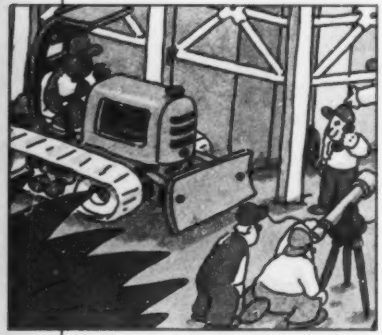
JULY 1988 VOLUME 48 NUMBER 10

COVER: TOWARD A NATIONAL HOUSING POLICY



There is no question that America needs a housing policy, but when will it come and what form will it take? And who is influencing whom as both parties hold their conventions and the candidates head for November? To find out, *Mortgage Banking* talked with key politicians, lobbying groups and staff aides. Conclusion: housing should fare better no matter who wins.

12 Hammering, Sawing, Shimming, Planing *As a major housing bill emerges in the Senate, Democrat Dukakis' plans for housing are fairly activist, but he could be influenced by Jesse Jackson whose thoughts on the subject are not moderate. Republican Bush's mind is not yet made up, but conservatives are trying to do it for him. They probably won't succeed, to the relief of housing industry executives.* By JOSEPH C. DAWSON

20 The Massachusetts Model *With HOP and SHARP, a lot of money and a few smart people, the Bay State is delivering housing for low- and moderate income residents. Here's how.*

Profile

26 That's Angelo *Countrywide's outspoken president tells how he and David Loeb started the company in 1968, fell just short of closing it down in 1974 then rebuilt it into America's second largest independent mortgage banking enterprise. It took nerve and imagination.* By ROBERT S. ENGLAND

Regulation

38 Happy Anniversary, Alan Greenspan *The new chairman of the Federal Reserve was appointed a year ago, then faced history's worst stock market crash. Whew! Here's an assessment by MBA's chief economist, himself a former Fed governor.* By LYLE E. GRAMLEY

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COVER ILLUSTRATION BY FRED SCHRIER

HOUSING POLICY:

What to Look for Now

Timing is an important part of editing any magazine. An example is our cover report this month, about the bipartisan attempt to draw up a national housing policy. It comes A) just as the Cranston-D'Amato housing bill is scheduled to be introduced in the Senate B) on the eve of both political conventions and C) as the campaign begins to get officially under way.

For those of us in real estate finance, this article is a guide as to what to look for during the next few months as the candidates firm up their positions on housing. A related contribution shows the inner workings of Massachusetts' state housing program, considered one of the best in the nation.

With this issue we are introducing a department called Profile. Our first subject is Countrywide's Angelo Mozilo, who spent a day in his Pasadena office with Washington freelance Robert England. Profile will not necessarily appear every month, but when it does it will serve as a window for viewing our industry through the experience of one company and its CEO.

Alan Greenspan's first anniversary as chairman of the Federal Reserve is upon us, and we thought it would be useful to readers to have an assessment of how he's doing from a man who should know, Lyle Gramley, MBA's chief economist and a former Federal Reserve Board governor. Greenspan, concludes Gramley, has "proven amazingly adept at dealing with formidable problems."

Elsewhere in this issue, we look at what lies ahead in the House for repeal of Glass-Steagall and its implications for mortgage banking. We also analyze the problem of judging the worth of land and how that relates to income property investments. Another article brings readers up to date on the REO picture, with an account of the VA no bid situation. Lastly, we talk with a mortgage banker in North Little Rock, Ark., who was back in business 24 hours after a devastating fire. His lesson, we think, is universal.

Warren Lasko
Executive Vice President

COMING IN AUGUST

The Global Hunt for Money

Fannie Mae opens a new department of international finance, while three mortgage lenders say they will offer adjustable rate mortgages tied to the London Interbank Offered Rate. What is going on here? Well, it's not here, and that's the point. More and more, mortgage bankers are looking toward international markets for money. It's a new and different ARMs race.

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Executive Vice President
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Vice President of Communications
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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
NOV	119	83	36	1,661	1,180	481	103	72	31	1,459	1,054	405
DEC	85	64	21	1,399	1,086	313	94	66	28	1,372	1,040	332
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,248	988	260
FEB	90	67	23	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	131	106	25	1,554	1,237	317	140	107	33	1,476	1,110	366
APR$_p$	**152**	**112**	**40**	**1,561**	**1,153**	**408**	**135**	**101**	**34**	**1,416**	**1,032**	**384**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
4 MONTHS												
1988	451	345	106				439	330	109			
1987	509	383	126				513	373	140			
1986	562	380	182				562	380	182			
1985	521	354	167				540	358	182			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
NOV	22	25	45	27	269	313	648	431	19	19	38	25	265	257	546	391
DEC	13	14	37	22	222	281	576	320	18	14	35	27	261	240	490	381
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	264	230	420	334
FEB	12	11	41	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	19	52	38	291	268	563	432	26	24	54	37	306	276	525	369
APR$_p$	**24**	**31**	**59**	**37**	**265**	**328**	**592**	**376**	**24**	**27**	**46**	**38**	**257**	**264**	**498**	**397**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
4 MONTHS																
1988	73	68	185	125					75	71	172	121				
1987	73	82	211	143					83	87	203	141				
1986	76	74	257	154					75	77	250	163				
1985	59	54	261	148					58	51	237	147				

HOUSING ACTIVITY (Cont'd.)

	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
YEAR AND MONTH	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
NOV	241	43	365	7.1	237.7	118.6	23.8	95.3	1,042	668	374	130	98	32
DEC	220	37	370	7.6	236.1	118.0	25.1	93.0	1,016	659	357	155	112	43
1988														
JAN	191	43	366	7.7	229.9	115.7	23.1	91.1	1,008	654	354	110	82	28
FEB	220	55	364	6.9	229.1	114.9	22.1	92.1	983	636	347	100	73	27
MAR	303	67	368	7.0	230.6	116.8	21.3	92.5	999	656	343	121	86	35.
APR$_p$	**312**	**69**	**365**	**6.6**	**233.1**	**117.7**	**21.0**	**94.4**	**1,002**	**661**	**341**	**123**	**85**	**38**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
4 MONTHS														
1988	1,026	234										453	325	128
1987	1,113	257										516	348	168
1986	1,044	288										483	325	158
1985	928	231										461	307	154

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type

(Dollars in millions)

	TOTAL					1-4 UNITS				
YEAR AND MONTH	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
AUG	$49,197	$6,760	$16,746	$22,655	$3,036	$34,025	$6,558	$14,192	$13,031	$244
SEP	50,316	7,526	16,761	22,921	3,108	32,472	7,070	13,595	11,617	190
OCT	49,520	7,387	16,719	21,830	3,584	31,286	6,819	13,647	10,604	216
NOV	43,464	5,678	13,708	20,552	3,526	26,461	5,450	11,378	9,411	222
DEC	53,124	6,794	16,617	24,613	5,100	29,492	6,582	12,238	10,505	167
1988										
JAN$_p$	**36,376**	**5,919**	**10,683**	**18,765**	**1,009**	**21,175**	**5,742**	**8,327**	**7,038**	**68**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1 MONTH										
1988	36,376	5,919	10,683	18,765	1,009	21,175	5,742	8,327	7,038	68
1987	44,937	9,748	12,944	20,718	1,527	33,107	8,791	10,478	13,617	221
1986	24,606	5,488	10,512	7,228	1,378	16,440	5,168	7,893	3,225	154
1985	15,048	4,004	2,787	7,323	934	8,441	3,894	572	3,927	48

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
AUG	$2,684	$ 80	$1,376	$989	$239	$12,488	$122	$1,178	$ 8,635	$2,553
SEP	2,799	236	1,420	765	378	15,045	220	1,746	10,539	2,540
OCT	3,079	383	1,495	835	366	15,155	185	1,577	10,391	3,002
NOV	2,508	151	1,022	949	386	14,495	77	1,308	10,192	2,918
DEC	3,503	97	1,986	928	492	20,129	115	2,393	13,180	4,441
1988										
JAN$_p$	**2,120**	**160**	**1,171**	**710**	**79**	**13,081**	**17**	**1,185**	**11,017**	**862**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1 MONTH										
1988	2,120	160	1,171	710	79	13,081	17	1,185	11,017	862
1987	2,895	529	1,341	893	132	8,935	428	1,125	6,208	1,174
1986	1,784	86	1,218	427	53	6,382	234	1,401	3,576	1,171
1985	1,228	36	691	399	102	5,379	74	1,524	2,997	784

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
AUG	$34,176	$ 5,713	$19,056	$7,461	$1,946	$131,700	$13,206	$53,644	$47,210	$17,640
SEP	37,287	7,705	18,912	8,610	2,060	132,131	15,834	50,892	48,965	16,440
OCT	39,826	10,964	18,768	7,379	2,715	126,818	13,150	50,143	47,170	16,355
NOV	29,594	4,604	15,454	6,675	2,861	126,410	12,484	47,784	49,783	16,359
DEC	27,463	2,907	15,561	6,279	2,716	112,321	6,711	44,927	46,795	13,888
1988										
JAN$_p$	**28,469**	**7,271**	**13,929**	**5,737**	**1,532**	**106,984**	**8,111**	**41,990**	**43,634**	**13,249**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
1 MONTH										
1988	28,469	7,271	13,929	5,737	1,532					
1987	29,528	7,044	14,068	6,691	1,725					
1986	26,049	7,695	12,913	3,000	2,441					
1985	17,354	2,798	9,207	3,756	1,593					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
NOV	119	49	21	49	131	$ 9,272	67	$4,093	26	$1,883	38	$3,296
DEC	108	48	16	44	122	8,603	66	3,987	21	1,511	35	3,105
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR$_p$	**165**	**93**	**14**	**58**	**88**	**6,591**	**42**	**2,508**	**14**	**1,039**	**32**	**3,044**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
4 MONTHS												
1988	589	344	60	185	408	29,144	221	13,239	69	5,066	118	10,839
1987	1,052	628	182	242	816	56,322	475	29,403	183	13,408	158	13,511
1986	1,099	747	113	239	461	30,959	228	13,852	78	5,468	155	11,639
1985	636	246	65	325	390	25,041	115	6,569	51	3,360	224	15,112

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
NOV	$2,899	$1,297	$134,633	$2,702	$2,408	$4,271	$2,979	$2,742	$4,636	$4,685
DEC	3,115	3,747	139,960	6,374	2,123	−373*	3,261	3,201	3,644	4,696
1988										
JAN	2,254	1,267	140,522	1,683	2,096	3,867	2,168	1,832	1,651	4,348
FEB	2,516	2,629	142,797	3,190	1,869	4,911	3,293	2,414	3,694	3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR$_p$	**2,555**	**2,409**	**149,569**	**5,444**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**4,820**	**3,315**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
4 MONTHS										
1988	11,148	9,081	—	13,699	n.a.	n.a.	n.a.	n.a.	13,623	13,911
1987	7,873	5,877	—	22,678	34,819	43,272	35,082	35,056	51,523	42,296
1986	9,584	5,388	—	12,037	25,842	28,346	19,827	19,061	44,265	22,263
1985	6,751	7,273	—	5,676	14,644	15,480	10,877	9,497	14,742	10,684

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
NOV	10.76%	10.59%	10.58%	9.30%	9.25%	9.06%	10.345%
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.035
MAY$_p$	**n.a.**	**n.a.**	**n.a.**	**8.95**	**9.23**	**9.24**	**10.283**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[6]	CURRENT SECONDARY MARKET YIELDS FNMA[6]	CURRENT SECONDARY MARKET YIELDS FHLMC[6]	SELECTED SECURITIES A-Rated[7] Utility	SELECTED SECURITIES U.S. Government 10-yr.	SELECTED SECURITIES U.S. Government 26-wk.	SELECTED SECURITIES Prime Comm. Paper 90-119 Days
1987							
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	9.72	9.62	9.59	10.23	8.72	6.21	6.86
MAY	**10.01**	**10.56**	**10.25**	**10.61**	**9.09**	**6.53**	**7.19**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
NOV	37	117	100	96
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	**n.a.**	**92**	**147**	**116**

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[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

8/10/88

AUGUST 1988

MORTGAGE BANKING

THE MAGAZINE
OF REAL ESTATE
FINANCE

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Hedging, Sears' style

Selling, Boston's style

Answering, telephone style

The Global Hunt for Money

CONTENTS

AUGUST 1988 VOLUME 48 NUMBER 11

COVER:
The Global Search For Capital

In the 1970s, the major secondary market participants began securitizing mortgages to better tap domestic capital markets. Now those same institutions, along with Wall Street investment banking firms, are looking globally for money for the U.S. housing market. They are confronting obstacles and mostly meeting with success, but the whole phenomenon is just starting.

12 Money Anywhere *If adjustable rate mortgages linked to the London Interbank Offered Rate already exist, can a LIBOR ARM security be far behind? No, that's in the works, too, as are new international forays by Fannie Mae and Freddie Mac.* By BILL BLACK

SPECIAL REPORT: Hedging

26 Sears' Best: Sy Naqvi, a Disciplined Hedger *If you're responsible for $5.8 billion in mortgages, one wise tactic is leave your vanity and your ego at the doorstep of your office.* By ROBERT S. ENGLAND

37 Why Not Hedge Your Servicing Portfolio? *It can and should be done, and here's the how and why of doing it.* By JESS LEDERMAN

41 Enemy Time *The clock is the hedger's worst source of trepidation, but as with any foe, familiarity is the first step toward mastery of techniques to minimize risk.* By PAUL T. PETERSON

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44 A Fortune in a Fortnight *Connecticut's Mechanics and Farmers Bank does more business in biweeklies than any other U.S. financial institution. It set up its own secondary market for them and, good news for mortgage bankers, Fannie Mae has, too.* By RICHARD BRUNS

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53 Working out Workouts *There are ways to avoid disaster, among them getting a preworkout agreement and using arbitration to settle issues with less hassle.* By JAMES R. BUTLER JR.

61 Hard Sell for Boston's Banks *They now are turning to marketing experts from the big consumer-goods packaging companies in their battle to win deposits. Move over Clorox, watch out Cheer and pull out the Brillo.* By STEVEN SYRE and TOM NUTLE

67 Answer the Phone! *It rings and rings, and there's no one there, and mortgage lenders lose business. Here's what some of them are doing to short-circuit the problem.* By JANE MOSS SNOW

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69 Market Share: Lower but Steady *Mortgage lenders' portion of one-to-four family originations should hold at current levels for this year and into 1989.* By RICHARD W. PEACH and THOMAS M. HOLLOWAY

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74 Why I Didn't/Did Go into Mortgage Banking *A June graduate of the Harvard Business School takes the negative. On the affirmative is an executive who is a few points away from her CMB. Both agree on one point: mortgage bankers should do more to attract the best and the brightest.*

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COVER ILLUSTRATION BY DALE GUSTAFSON

World-Class Money, A World-Class Hedger

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This month's cover report looks at who is doing what to attract foreign capital to U.S. real estate markets. One fascinating detail: the money in Japan's Postal Savings System adds up to almost a trillion dollars, and some of it is coming into the American secondary mortgage market.

A Special Section is devoted to hedging, and it begins with an article about Sy Naqvi, who is responsible for minimizing risk in $5.8 billion in loans originated by Sears Mortgage and Coldwell Banker. Another contribution deals with the how and why of hedging servicing portfolios, while a third discusses the options and futures markets as hedging tools.

Other contributions deal with how a Connecticut bank became the U.S. leader in biweekly mortgages, how Boston's banks are turning to marketing experts to win deposits and how some mortgage bankers believe other mortgage bankers should pay more attention to their ringing telephones.

In Forum, a 1988 honors graduate of the Harvard Business School explains why she didn't go into mortgage banking, while an executive who is only a few points away from her CMB describes why she did.

Warren Lasko
Executive Vice President

COMING IN SEPTEMBER

The Loan Processing Express

Streamlining the mortgage-loan application process is consuming the efforts of a plethora of committees in real estate finance and in the government. The 15-day mortgage is not yet the standard, but, if things go as scheduled, the 60-day mortgage is headed toward derailment. An encouraging and universal question: "Does everyone need this information, or can we get rid of it?"

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 48 NUMBER 11

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JOHN M. TEUTSCH, JR., CMB

Executive Vice President
WARREN LASKO

Vice President of Communications
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Production Aide
MOLLY GEREMIA

Circulation
BENNIE MURPHY

Art Director
SARAH CLARKE HOLLANDER

Assistant Art Director
LINA CHESAK

Art Production
LINDA M. ROLLA

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
DEC	85	64	21	1,399	1,086	313	94	66	28	1,372	1,040	332
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,248	988	260
FEB	90	68	22	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	129	105	24	1,529	1,229	300	140	107	33	1,476	1,110	366
APR	153	112	41	1,576	1,146	430	138	101	37	1,449	1,035	414
MAY$_p$	**139**	**108**	**31**	**1,384**	**1,051**	**333**	**136**	**104**	**32**	**1,427**	**1,041**	**386**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
5 MONTHS												
1988	589	452	137				579	434	145			
1987	667	503	164				650	478	172			
1986	753	518	235				732	486	246			
1985	691	472	219				687	440	247			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
YEAR AND MONTH	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
DEC	13	14	37	22	222	281	576	320	18	14	35	27	261	240	490	381
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	264	230	420	334
FEB	12	11	42	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	18	53	36	291	262	572	405	26	24	54	37	306	276	525	369
APR	25	32	59	37	265	346	593	372	24	27	46	38	265	272	512	400
MAY$_p$	**21**	**30**	**54**	**35**	**206**	**269**	**555**	**352**	**23**	**28**	**49**	**36**	**235**	**271**	**535**	**386**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
5 MONTHS																
1988	93	99	240	157					98	100	223	158				
1987	101	114	271	180					108	115	252	175				
1986	103	102	338	209					104	107	309	212				
1985	83	83	332	193					98	82	314	194				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
DEC	220	37	370	7.6	238.0	117.4	25.4	95.2	1,016	659	357	155	112	43
1988														
JAN	191	43	366	7.7	231.9	117.0	23.8	91.1	1,008	654	354	110	82	28
FEB	220	55	363	6.8	228.5	115.4	22.6	90.5	983	636	347	100	73	27
MAR	303	67	368	6.9	232.9	117.6	21.6	93.7	999	656	343	121	86	35
APR	322	66	356	6.8	233.5	117.6	21.1	94.8	1,002	661	341	123	85	38
MAY$_p$	**344**	**62**	**371**	**6.9**	**236.6**	**116.1**	**21.6**	**98.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
5 MONTHS														
1988	1,380	294										n.a.	n.a.	n.a.
1987	1,459	319										648	442	206
1986	1,374	363										651	439	212
1985	1,225	292										624	423	201

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
SEP	$50,492	$7,526	$16,761	$23,097	$3,108	$32,499	$7,070	$13,595	$11,644	$190
OCT	49,841	7,387	16,719	22,151	3,584	31,311	6,819	13,647	10,629	216
NOV	43,840	5,678	13,708	20,928	3,526	26,482	5,450	11,378	9,432	222
DEC	52,632	6,794	16,617	24,833	4,388	29,464	6,582	12,238	10,530	114
1988										
JAN	36,953	5,919	10,683	18,765	1,586	21,139	5,742	8,327	7,038	32
FEB$_p$	**35,647**	**5,886**	**10,924**	**17,021**	**1,816**	**20,604**	**5,440**	**8,507**	**6,626**	**31**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
2 MONTHS										
1988	72,806	12,011	21,607	35,786	3,402	41,743	11,182	16,834	13,664	63
1987	91,431	20,060	26,084	42,055	3,232	66,110	18,803	21,251	25,620	436
1986	53,784	11,323	20,990	18,186	3,285	35,286	10,494	16,050	8,509	233
1985	41,075	8,152	15,918	14,675	2,330	26,411	7,486	11,340	7,483	102

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
SEP	$2,821	$236	$1,420	$787	$378	$15,166	$220	$1,746	$10,660	$2,540
OCT	3,106	383	1,495	862	366	15,277	185	1,577	10,513	3,002
NOV	2,542	151	1,022	983	386	14,609	77	1,308	10,306	2,918
DEC	3,371	97	1,986	969	319	19,797	115	2,393	13,334	3,955
1988										
JAN	2,122	160	1,171	710	81	13,692	17	1,185	11,017	1,473
FEB$_p$	**1,880**	**385**	**990**	**421**	**84**	**13,163**	**61**	**1,427**	**9,974**	**1,701**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
2 MONTHS										
1988	4,208	751	2,161	1,131	165	26,855	78	2,612	20,991	3,174
1987	5,261	545	2,485	1,964	267	20,060	712	2,348	14,471	2,529
1986	4,158	409	2,317	1,007	425	14,340	420	2,623	8,670	2,627
1985	3,058	414	1,614	795	235	11,606	252	2,964	6,397	1,993

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
SEP	$37,181	$7,705	$18,912	$8,535	$2,029	$131,680	$15,834	$50,892	$48,696	$16,258
OCT	39,771	10,964	18,768	7,356	2,683	126,479	13,150	50,143	47,011	16,175
NOV	29,450	4,604	15,454	6,636	2,756	126,075	12,484	47,784	49,673	16,134
DEC	26,649	2,907	15,561	6,170	2,011	111,370	6,711	44,927	46,613	13,119
1988										
JAN	28,343	7,271	13,929	5,618	1,525	106,598	8,111	41,990	43,325	13,172
FEB$_p$	**27,456**	**4,490**	**13,525**	**6,598**	**2,843**	**110,839**	**9,147**	**43,049**	**44,404**	**14,239**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
2 MONTHS										
1988	55,798	11,761	27,454	12,215	4,368					
1987	69,161	17,985	30,868	16,354	3,954					
1986	59,613	15,649	26,820	11,680	5,014					
1985	38,562	7,454	19,771	7,173	4,164					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
DEC	108	48	16	44	122	$8,603	66	$3,987	21	$1,511	35	$3,105
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR	165	93	14	58	88	6,591	42	2,508	14	1,039	32	3,044
MAY$_p$	**169**	**91**	**18**	**60**	**113**	**8,222**	**59**	**3,545**	**16**	**1,164**	**38**	**3,513**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
5 MONTHS												
1988	806	483	78	245	521	37,366	280	16,784	85	6,230	156	14,352
1987	1,185	658	211	316	1,046	72,160	624	38,668	219	16,029	203	17,463
1986	809	333	152	324	613	42,240	312	19,129	102	6,940	199	16,171
1985	659	152	83	424	493	31,717	140	8,001	64	4,228	289	19,488

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued					Applications	Issued
1987										
DEC	$3,115	$3,747	$139,960	$6,374	$2,123	$−373*	$3,261	$3,201	$3,644	$4,69
1988										
JAN	2,254	1,267	140,522	1,683	2,096	3,867	2,168	1,832	1,651	4,348
FEB	2,516	2,629	142,797	3,190	1,869	4,911	3,293	2,414	3,694	3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR	2,555	2,409	149,659	5,444	2,968	6,437	2,772	2,266	6,288	4,168
MAY$_p$	**2,142**	**2,138**	**152,826**	**4,600**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	25,415	20,531	—	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
5 MONTHS										
1988	13,290	11,219	—	18,269	n.a.	n.a.	n.a.	n.a.	19,911	18,079
1987	9,599	7,595	—	29,764	40,539	48,442	43,078	34,624	61,743	50,491
1986	13,122	7,366	—	16,528	35,699	38,958	28,774	27,225	49,128	28,135
1985	8,825	8,975	—	6,680	18,019	19,181	14,468	13,737	20,815	14,279

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
	FHA	CONVENTIONAL		CONVENTIONAL		1 Yr. ARM	FRM
	New[4]	New	Existing	New	Existing	(1%/Yr.)	Conv.
1987							
DEC	10.63%	10.52%	10.52%	9.15%	9.20%	10.15%	9.613%
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.035
MAY$_p$	10.84	10.48	10.49	8.95	9.23	9.24	10.283
JUN$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**9.45**	**10.223**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
DEC	10.04%	9.96%	9.92%	10.42%	8.99%	6.36%	7.61%
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	9.72	9.62	9.59	10.23	8.72	6.21	6.86
MAY	10.01	10.56	10.25	10.61	9.09	6.53	7.19
JUN	**9.97**	**10.10**	**10.06**	**10.41**	**8.92**	**6.76**	**7.49**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	23	92	147	116
JUN	**n.a.**	**105**	**118**	**114**

NA—Not available, p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks

[3] FHA applications received includes the Direct Endorsement Program starting in 1984

[4] Secondary market gross yields

[5] Federal Home Loan Mortgage Corp. Existing Construction only

[6] Securities for 0 to 30 day delivery

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds

[8] Year-to-date seasonally adjusted series not calculated

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity

9/21/88

SEPTEMBER 1988

MORTGAGE BANKING

THE MAGAZINE
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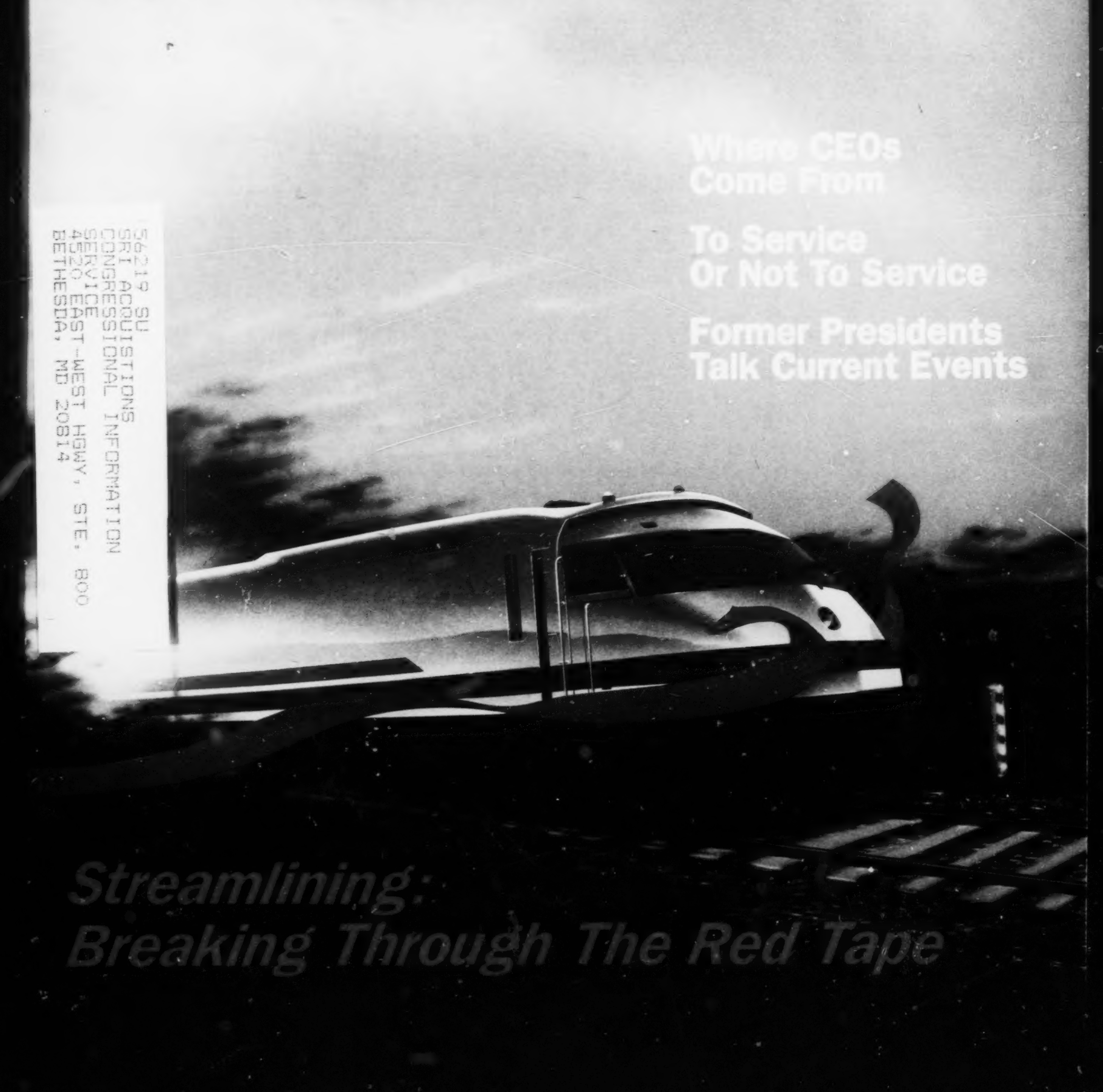

Where CEOs Come From

To Service Or Not To Service

Former Presidents Talk Current Events

Streamlining: Breaking Through The Red Tape

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SRI ACQUISTIONS
CONGRESSIONAL INFORMATION
SERVICE
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BETHESDA, MD 20814

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SEPTEMBER 1988 VOLUME 48 NUMBER 12

COVER:
STREAMLINING:
CUTTING
THROUGH
THE RED
TAPE

Cutting down on the paper work required of most mortgage transactions is what most borrowers and lenders dream about. But a 15-day mortgage is more than fantasy. Streamlining the mortgage loan process is on a fast track within the mortgage industry.

12 **Streamlining: Full Speed Ahead** The 60-day mortgage isn't a thing of the past yet, but industry innovators are paving the way for a faster, more efficient mortgage that benefits consumers and lenders alike.
By HOWARD SCHNEIDER

Management 20 **Where Do Mortgage Company CEOs Come From?** New evidence points in the direction outside industry ranks.
By JOHN G. FARISH AND PAUL D. McKINNIS

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By JAMES L. HENNESSY JR. AND JAMES C. PRATT

Education 38 **Back to School** Continuing education for mortgage professionals is a prerequisite for long-term success. Courses are available that provide thoughtful and up-to-date information on all aspects of real estate finance. By LYNN POWELL

Roundtable 44 **A View From the Top** A lively discussion among four former MBA presidents provides insight on current mortgage issues, such as, commercial overbuilding, VA no-bids, environmental problems and declining production.

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By H. JANE LEHMAN

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Socio-economics 88 **Failing Schools, Failing Real Estate** Failure in the classroom equals failure in the boardroom. A weak labor force eventually cuts into profits, including the mega-industry of real estate—the price Americans pay for a lackluster educational system. By ANTHONY DOWNS

Essay 99 **The Homeless** One man's opinion on the state of homelessness in America. Why and what we can do about it. **And MBA provides one small solution.** By JOSEPH GARRETT

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COVER ILLUSTRATION BY THIERRY THOMPSON

PORTFOLIO

Streamlining

Almost one year ago, MBA President John M. Teutsch Jr. declared in his address before the MBA Convention in Boston that there was no reason why closing a loan should take 45 to 60 days. He made streamlining one of his initiatives during his tenure and pushed it into prominence by his endorsement. Today, the lengthy mortgage origination process appears to be on the verge of finding a shortcut through the tremendous amount of paperwork that mortgages generate . . . benefiting lenders and consumers alike.

Lenders should be using a Uniform Residential Loan Application form by early next year, thanks in large part to the efforts of industry and government studies during the last 12 months. As the legendary Walt Disney once said, "If you can dream it, you can do it." See this month's cover story.

Also inside this month's issue, we discover where mortgage banking CEOs are recruited from with surprising results. A roundtable discussion featuring four former MBA presidents reveals several thought-provoking comments on a variety of key industry topics, including: production decline, international commercial investment and REO woes. And we look into reverse equity mortgages, an innovative approach to a financial dilemma for many elderly homeowners.

Jane DeMarines

Jane M. DeMarines
Senior Director of Public Affairs
and Marketing

COMING IN OCTOBER

MBA at 75: Ready for the Future

It was 1914 when the Mortgage Bankers Association of America (then called the Farm Mortgage Bankers Association) was founded. As we celebrate the 75th anniversary of MBA, we look forward to the next 75 years. Also, MBA chief economist Lyle Gramley analyzes the results of the annual cost survey of servicing. Other articles focus on rating agencies, HUD regulations and ethics in mortgage banking.

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President
JOHN M. TEUTSCH, JR., CMB

Executive Vice President
WARREN LASKO

Vice President of Communications
JACQUELINE WERTIME

Senior Director of Public Affairs and Marketing
JANE M. DEMARINES

Assistant Editor
LADONNA HALE CURZON

Art Director
SARAH CLARKE HOLLANDER

Assistant Art Director
LINA CHESAK

Art Production
LINDA M. ROLLA

Advertising Sales Managers
CARY SKINNER
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Advertising Production
MOLLY GEREMIA

Circulation
BENNIE MURPHY

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,248	988	260
FEB	90	68	22	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	129	105	24	1,529	1,229	300	140	107	33	1,476	1,110	366
APR	154	112	42	1,584	1,151	433	138	101	37	1,449	1,035	414
MAY	140	109	31	1,384	1,057	327	138	106	32	1,436	1,058	378
JUN$_p$	**149**	**120**	**29**	**1,454**	**1,158**	**296**	**153**	**114**	**39**	**1,489**	**1,081**	**408**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,770	1,186	584			
6 MONTHS												
1988	739	572	167				732	549	183			
1987	829	624	205				807	594	213			
1986	932	646	286				908	607	301			
1985	855	582	273				843	540	303			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
YEAR AND MONTH	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	264	230	420	334
FEB	12	11	42	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	18	53	36	290	262	572	405	26	24	54	37	306	276	525	369
APR	25	32	59	37	265	345	595	379	25	28	48	38	265	272	512	400
MAY	20	31	54	35	205	267	556	356	23	29	49	36	236	274	538	388
JUN$_p$	**26**	**31**	**54**	**39**	**241**	**257**	**572**	**384**	**26**	**30**	**57**	**41**	**242**	**281**	**575**	**391**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
6 MONTHS																
1988	119	130	293	196					123	131	280	198				
1987	129	149	328	223					137	144	310	216				
1986	133	137	406	255					133	136	373	260				
1985	110	109	400	236					122	105	378	238				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1988														
JAN	191	43	366	7.7	231.9	117.0	23.8	91.1	1,008	654	354	110	82	28
FEB	220	55	363	6.8	228.5	115.4	22.6	90.5	983	636	347	100	73	27
MAR	303	68	366	6.8	232.9	117.6	21.6	93.7	999	658	341	121	86	35
APR	322	68	363	6.6	232.9	117.4	21.0	94.5	1,001	662	339	124	85	38
MAY	344	64	368	6.7	234.4	116.1	21.5	96.8	990	652	338	116	88	28
JUN$_p$	**376**	**66**	**370**	**6.2**	**236.2**	**115.3**	**22.0**	**98.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
6 MONTHS														
1988	1,756	364										n.a.	n.a.	n.a.
1987	3,530	376										796	551	245
1986	3,566	425										800	541	259
1985	3,217	360										788	531	257

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
OCT	$ 49,841	$ 7,387	$ 16,719	$ 22,151	$ 3,584	$ 31,311	$ 6,819	$ 13,647	$ 10,629	$ 216
NOV	43,840	5,678	13,708	20,928	3,526	26,482	5,450	11,378	9,432	222
DEC	52,632	6,794	16,617	24,833	4,388	29,464	6,582	12,238	10,530	114
1988										
JAN	36,953	5,919	10,683	18,765	1,586	21,139	5,742	8,327	7,038	32
FEB	35,487	5,886	10,924	17,021	1,656	20,634	5,440	8,507	6,626	61
MAR$_p$	**43,154**	**6,878**	**14,394**	**19,386**	**2,496**	**26,362**	**6,638**	**11,575**	**7,984**	**165**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
3 MONTHS										
1988	115,635	18,683	36,001	55,173	5,778	68,136	17,820	28,409	21,649	258
1987	149,984	34,577	44,129	65,169	6,109	108,463	32,679	36,335	38,460	989
1986	87,744	20,229	34,180	27,609	5,726	62,093	18,628	26,398	16,493	574
1985	66,776	12,675	26,703	23,026	4,372	43,053	11,648	19,227	11,985	193

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
OCT	$ 3,106	$ 383	$ 1,495	$ 862	$ 366	$ 15,277	$ 185	$ 1,577	$ 10,513	$ 3,002
NOV	2,542	151	1,022	983	386	14,609	77	1,308	10,306	2,918
DEC	3,371	97	1,986	969	319	19,797	115	2,393	13,334	3,955
1988										
JAN	2,122	160	1,171	710	81	13,692	17	1,185	11,017	1,473
FEB	2,020	385	990	421	224	12,833	61	1,427	9,974	1,371
MAR$_p$	**2,481**	**157**	**1,349**	**658**	**317**	**14,311**	**83**	**1,470**	**10,744**	**2,014**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
3 MONTHS										
1988	6,663	702	3,510	1,789	662	40,836	161	4,082	31,735	4,858
1987	8,315	822	3,916	2,977	600	33,206	1,076	3,878	23,732	4,520
1986	6,340	709	3,595	1,420	616	19,311	892	4,187	9,696	4,536
1985	5,079	584	2,776	1,307	412	18,644	443	4,700	9,734	3,767

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
OCT	$ 39,771	$ 10,964	$ 18,768	$ 7,356	$ 2,683	$126,479	$13,150	$50,143	$47,011	$16,175
NOV	29,450	4,604	15,454	6,636	2,756	126,075	12,484	47,784	49,673	16,134
DEC	26,649	2,907	15,561	6,170	2,011	111,370	6,711	44,927	46,613	13,119
1988										
JAN	28,343	7,271	13,929	5,618	1,525	106,598	8,111	41,990	43,325	13,172
FEB	27,456	4,490	13,525	6,598	2,843	110,839	9,147	43,049	44,404	14,239
MAR$_p$	**37,397**	**3,969**	**18,742**	**10,858**	**3,828**	**116,459**	**7,453**	**45,589**	**48,532**	**14,885**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
3 MONTHS										
1988	93,196	15,730	46,196	23,074	8,196					
1987	117,394	30,063	53,818	26,467	7,046					
1986	104,185	30,315	46,607	17,825	9,438					
1985	66,220	9,966	33,988	14,905	7,361					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1988												
JAN	110	58	14	36	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR	165	93	14	58	88	6,591	42	2,508	14	1,039	32	3,044
MAY	170	91	18	61	113	8,222	59	3,545	16	1,164	38	3,513
JUN$_p$	**168**	**85**	**20**	**63**	**110**	**8,466**	**49**	**3,006**	**16**	**1,209**	**45**	**4,251**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
6 MONTHS												
1988	927	520	98	309	632	45,832	330	19,790	101	7,439	201	18,603
1987	1,430	785	253	392	1,266	87,724	745	46,234	266	19,452	255	22,038
1986	1,025	401	200	424	759	51,828	375	23,074	135	9,607	249	19,147
1985	820	200	102	518	613	39,502	184	10.574	78	5,189	351	23,739

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1988										
JAN	$ 2,254	$ 1,267	$140,522	$ 1,683	$ 2,096	$ 3,867	$ 2,168	$ 1,832	$ 1,651	$ 4,348
FEB	2,516	2,629	142,797	3,190	1,869	4,911	3,293	2,414	3,694	3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR	2,555	2,409	149,569	5,444	2,968	6,437	2,772	2,266	4,820	3,315
MAY	2,142	2,138	152,826	4,600	3,552	5,159	2,876	2,325	6,288	4,168
JUN$_p$	**2,179**	**2,372**	**157,438**	**6,220**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	25,415	20,531	—	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
6 MONTHS										
1988	15,469	13,591	—	24,489	n.a.	n.a.	n.a.	n.a.	24,875	23,649
1987	11,344	9,285	—	36,850	47,320	54,751	50,942	50,260	75,820	58,760
1986	16,171	10,366	—	23,359	45,419	49,296	39,279	37,578	58,600	36,313
1985	10,419	10,880	—	8,199	22,120	24,353	18,574	17,018	24,139	17,888

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1988							
JAN	10.17%	10.09%	10.10%	9.10%	9.24%	8.93%	10.010%
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.035
MAY	10.84	10.48	10.49	8.95	9.22	9.24	10.283
JUN	10.65	10.35	10.37	9.07	9.31	9.45	10.223
JUL$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**9.67**	**10.240**

CURRENT SECONDARY MARKET YIELDS / SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1988							
JAN	9.90%	9.78%	9.68%	10.05%	8.67%	6.25%	6.87%
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	9.72	9.62	9.59	10.23	8.72	6.21	6.86
MAY	10.01	10.56	10.25	10.61	9.09	6.53	7.19
JUN	9.97	10.10	10.06	10.41	8.92	6.76	7.49
JUL	**9.96**	**10.35**	**10.30**	**10.40**	**9.06**	**6.99**	**7.82**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	23	92	147	116
JUN	24	105	118	114
JUN	**n.a.**	**90**	**129**	**124**

NA—Not available. p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks

[3] FHA applications received includes the Direct Endorsement Program starting in 1984

[4] Secondary market gross yields

[5] Federal Home Loan Mortgage Corp. Existing Construction only

[6] Securities for 0 to 30 day delivery

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

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OCTOBER 1988

MORTGAGE BANKING

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MBA at 75: Then, Now and Tomorrow

The Changes in Servicing

Dealing with Overcapacity

1987 Cost Survey

A Plan for the 90s

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COVER:
MBA's 75th Anniversary

In hindsight, 1914 was a pivotal year. The start of World War I began a chain of events which resulted in a massive impact on American life lasting to this day. It was also the year the Farm Mortgage Bankers Association was born which would evolve into the Mortgage Bankers Association of America. It too would have a significant impact on American life, changing, adjusting and striving for better housing futures. This issue has a brief look back at that important year, and then focuses on the challenges facing MBA members today and tomorrow.

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PORTFOLIO

We Need To Look Back To Look Ahead

Perspective is one of the chief advantages of age. History is an excellent teacher to those who understand the wisdom of learning from past failures and successes.

This month we celebrate 75 years of MBA history, a diamond jubilee. What is there to learn from those early days that's important now? MBA founders had to deal with a complex and rapidly changing culture. With a war about to engulf the world, and with new modes of transportation, society would never be the same. The founders had to deal with these complexities as best they could, all the while accommodating a wide variety of perspectives. The most important lesson is that the founders survived and prospered through teamwork based on knowledge and a code of ethics that said honesty is the best policy.

This month's issue, while celebrating those early days of the Model T, shows we haven't forgotten that fundamental lesson. The major thrust of virtually every article is a tribute to knowledgable teamwork. What our authors implicitly say is here is a creative solution that might help everyone, a solution for servicing, for overcapacity, for affordable housing. It's clear too from the articles on ethics and MBA's new president, Willard Gourley, that we haven't forgotten first principles.

Knowledge, teamwork, honesty. They have brought us a long way since 1914. As we look at the decade ahead in a comprehensive outlook we can be confident that with that past as our guide, we will do well in the future.

Jane DeMarines

Jane DeMarines
Senior Director of Public Affairs
and Marketing

COMING IN NOVEMBER

Going After the Market

When Meredith Willson's Harold Hill was on the train to Gary, Indiana, he told his passengers the simple secret to being a good salesman: "You Gotta Know the Territory." It may be simple, but business pages are filled every day with news of large and small firms who haven't learned this basic lesson. We'll review that basic next month, and show what mortgage bankers are doing once they learn the lyrics.

A special thanks to Rona Mendelsohn for preparing the special report, "A View From the Top" featured in the September issue. Through an editor's error, Ms. Mendelsohn's name was not listed in the credits.

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Evaluating 1987

The MBA cost survey underscores disappointments: some positive movement occurred.

Lyle E. Gramley

In 1987, the mortgage banking industry experienced its most difficult year in recent history. Cyclical and longer-run forces drove costs up sharply, held down the rise of gross income, and sent net income plunging. Overall net income from one- to four-family residential mortgage lending operations was barely above zero for the average firm reporting in the 1987 survey (Chart 1), compared with a typical pretax profit margin of 15 to 20 percent during recent years.

Housing finance is a cyclical industry, and mortgage bankers are accustomed to living with adversity. But they were not, and could not have been, fully prepared for the avalanche of problems that hit the industry in 1987. The sources of the difficulties confronted by mortgage bankers were partly cyclical in nature. In particular, the prolonged and deep decline in long-term interest rates that began in the summer of 1984 came to an end in March 1987. The rise in mortgage rates and other long-term securities that occurred thereafter led to the sharpest decline in loan origination volume on record. It also generated huge marketing losses for many firms, although the industry still managed to achieve net marketing profits for the year as a whole.

Some problems facing the industry, however, were longer range in nature. Competition in both loan origination and servicing continues to increase, and mortgage bankers still cannot compete effectively with thrifts in the origination of ARMs. Moreover, the problems plaguing servicing operations in 1986 continued in 1987. Foreclosure losses deepened, while the amortized cost of purchased servicing rose sharply further.

Income from servicing typically has been the mainstay of a residential mortgage banker's income, accounting for between one-third and one-half of gross income from residential mortgage lending operations. Net income from servicing has been the most stable element, as well as the largest, of residential mortgage bankers' pre-tax income.

In 1987, however, the bottom line results for the servicing operation were deeply disappointing (Chart 2). Gross servicing income per loan recorded a significant increase, 8½ percent, but provisions for loan losses, the amortized cost of purchased servicing, and all major elements of direct costs per loan other than personnel expenses rose much faster. As a result, net servicing income fell to $35 per loan, down one fourth from the 1986 level and more than 50 percent below the 1985 level.

In recent years, servicing operations have been plagued with growing problems that have cut deeply into profitability. From 1979 to 1985, net servicing income ranged between .19 and .25 percent of the dollar volume of loans serviced—that is between 19 and 25 basis points—averaging 23 basis points over the seven years (Chart 3). Net income from servicing fell to 11 basis points in 1986 and to 8 basis points in 1987. Virtually all of this squeeze on net income has come from the cost side. Gross servicing income averaged 46 basis points from 1979 through 1985, and was still 43 basis points in 1987. But servicing costs have risen relentlessly, from 21 basis points in 1979 to 35 basis points in 1987. By far the largest part of this increase has occurred within the past two years.

Beginning in 1984, net servicing income per loan began to be held down by larger provisions for loan losses and net losses on foreclosures. Together, these two cost elements reduced net servicing income by $9 per loan in 1984, $12 in 1985, $23 in 1986 and $19 in 1987. Other costs for servicing foreclosures and real estate owned are also increasing. The 1987 survey broke out these costs explicitly; they amounted to over $15 per loan at the average firm reporting in the survey.

Use by the VA of the no-bid option has been a major contributor to increased costs of foreclosures. In fiscal 1986, 15 percent of all VA foreclosures were handled by the no-bid option; this figure rose to 21 percent in fiscal 1987. There is, of course, enormous geographical disparity in both the incidence of VA foreclosures and the use of the no-bid option. For example, in fiscal 1987, there were only 4 VA loans foreclosed in Boston, and none of these involved use of the no-bid option. In Houston, there were nearly 7,000 VA loans foreclosed, and the no-bid option was employed in a little over 40 percent of the cases.

Servicers with portfolios heavily weighted with loans in the energy-producing regions of the country have suffered a particularly heavy toll of foreclosure costs. Many of them have sought to deal with potential future

CHART 1

Income and Expenses Per Firm (in Thousands) Average Firm, 1985-87

	1987	1986	1985
Gross Income, Total	$26,066	$25,837	$18,156
Loan Production	5,712	5,059	3,042
Warehousing	8,979	9,602	6,545
Marketing	1,770	3,142	1,014
Servicing	9,605	8,035	7,555
Expenses, Total	25,993	20,765	15,515
Loan Production	11,023	8,222	5,849
Warehousing	6,699	6,258	5,033
Marketing	394	313	225
Servicing	7,877	5,972	4,408
Net Income, Total (Before Tax)	73	5,072	2,641
Loan Production	(5,311)	(3,163)	(2,807)
Warehousing	2,280	3,344	1,512
Marketing	1,376	2,829	789
Servicing	1,728	2,063	3,147
Memorandum Items:			
Profit Margin (Before Tax)	0.3%	19.6%	15.5%
Purchased Production as Percent of Total Production	33%	35%	29%
Number of Firms Reporting	124	124	101

CHART 2

Servicing Income and Expenses per Loan Serviced Average Firm, 1985-87

INCOME	1987	1986	1985
Servicing Fees	$177.60	$161.12	$148.38
1st Mortgages	173.92	160.65	148.07
Other Mortgages	3.68	.47	.31
Net Gain (or Loss) on Foreclosures	(5.08)	(10.49)	(6.77)
Other Loan Administration Income	23.29	29.90	29.19
Total Servicing Income	195.82	180.53	170.80
EXPENSES			
Personnel	40.84	37.62	33.58
Loan Administration Employees	33.56	31.25	27.06
Management and Directors	1.11	.21	.23
All Other Personnel	.39	.86	.99
Fringe Benefits	5.63	5.08	5.30
Education and Training	.15	.23	—
Occupancy	5.38	4.58	3.66
Electronic Data Processing	10.14	9.05	6.68
Other Direct Expenses	41.46	31.65	22.11
Equipment Rentals, Excl. EDP	1.57	1.67	1.36
Telephone and Postage	6.57	6.69	6.18
Other Supplies	2.77	2.83	2.39
Travel, Autos, and Advertising	.57	.68	.77
Legal and Auditing	1.01	.91	.79
Expenses to Service Foreclosures and REO	15.14	N/A	N/A
Other Direct Expenses	13.83[1]	18.88	10.62
Total Direct Expenses	97.82	82.90	66.03
Provision for Loan Losses	13.49	12.19	4.98
Amortized Cost of Purchased Servicing	49.39	39.46	23.88
Net Servicing Income (before tax)	35.12	45.99	75.91
Memorandum Items:			
Servicing Profit Margin (before tax)	17.9%	25.5%	44.4%
Servicing Income as Percent of Dollar Volume Serviced	.428	.438	.455
Servicing Fees as Percent of Dollar Volume Serviced	.388	.390	.395
Servicing Expense Ratio[2]	.214	.201	.182
Number of Firms	124	124	101

Only income and expenses that pertain to the day-to-day operation of the servicing operation are included in these figures. Excluded from income are net gains on the sale of servicing rights. Excluded from expenses are items such as amortization of goodwill and of organizational structure that reflect "push down" accounting treatment.

[1] Not comparable with prior years' data

[2] Total Direct Expenses as a percent of dollar volume serviced.

CHART 3

Trends in Servicing Income and Cost Average Firm, 1979-87

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Percent of Dollar Volume Serviced:									
Gross Income	.45	.46	.45	.46	.44	.47	.46	.44	.43
Expenses	.21	.21	.21	.23	.25	.24	.25	.33	.35
Net Income	.24	.25	.24	.23	.19	.23	.20	.11	.08
Selected Expenses per Loan:									
Provision for Loan Losses	$ .29	$ .48	$ .86	$ (.09)	$ 2.43	$ 4.20	$ 4.98	$12.19	$13.49
Net Losses on Foreclosures	$ .28	$ .16	$ .92	$ 1.11	$ 1.75	$ 4.99	$ 6.77	$10.59	$ 5.00
Amortized Cost of Purchased Servicing	$6.25	$10.25	$10.58	$15.03	$17.88	$20.15	$23.88	$39.46	$49.39

CHART 4

Major Components of Total Servicing Expenses Per Loan

	1983		1987	
	Dollars	Percent of Total	Dollars	Percent of Total
Personnel Expenses	$33.60	40.3	$ 40.84	25.41
Occupancy Expenses	3.48	4.17	5.38	3.34
EDP Expenses	5.69	6.81	10.14	6.31
Other Direct Expenses	20.39	24.41	41.46	25.80
Provision for Loan Losses	2.43	2.91	13.49	8.39
Amortized Cost of Purchased Servicing	17.88	21.41	49.39	30.73
Total	$84.34	100.00	$160.70	100.00

losses from this source by restructuring their portfolios through bulk sales and purchases of servicing.

Increases in the amortized cost of purchased servicing have also been large in the past two years, rising from $24 per loan in 1985 to $39 in 1986, and to $49 in 1987. In both 1986 and 1987, a substantial proportion of the servicing portfolio was lost to refinancings; for servicing purchased earlier, this requires expensing of the unamortized portion of the purchase price. This element of cost was probably also increased in 1987 by sales of servicing rights to improve cash flow and bolster current income. Such sales of servicing rights increase current income at the expense of future income, and are likely to be undertaken only when circumstances require.

Even in earlier years, the amortized cost of purchased servicing per loan had been rising as a result of relatively high market prices for servicing and the increase in purchases of servicing to enlarge the size of servicing portfolios. The increase in servicing portfolios has been quite rapid among survey respondents in recent years; since

CHART 5

Personnel Expenses, 1985-1987

	1987	1986	1985
Number of Loans Serviced per Servicing Employee	570	549	579
Average Salary, Loan Administration Personnel	$18,324	$16,885	$15,187
Total Personnel Expenses per Loan Serviced	$40.84	$37.62	$33.58
Personnel Expense as Percent of Dollar Volume Serviced	.085	.091	.090
Personnel Expense as Percent of Total Direct Servicing Expense	42%	45%	51%
Other Expenses, 1985-1987	**1987**	**1986**	**1985**
Occupancy Expenses per Loan Serviced	$5.38	$4.58	$3.66
Occupancy Expenses per Loan Administration Employee	$2,905	$2,475	$2,053
Occupancy as Percent of Dollar Volume Serviced	.012	.011	.010
EDP Expense per Loan Serviced	$10.14	$9.05	$6.68
EDP Expense per Loan Administration Employee	$5,473	$4,889	$3,747
EDP Expense as Percent of Dollar Volume Service	022	.022	.018
Other Direct Expenses per Loan Serviced	$41.46	$31.65	$22.11
Other Direct Expenses as Percent of Dollar Volume Serviced	.091	.077	.058
Portfolio Dynamics, 1985-1987	**1987**	**1986**	**1985**
Rate of Growth of Dollar Volume Serviced	22.7%	14.4%	15.1%
Rate of Growth of Number of Loans Serviced	11.8%	3.1%	7.0%
Total Servicing Acquisition Ratio* ($)	.70	0.39	0.71
Average Loan Size Serviced	$45,731	$41,263	$37,573
Percent Increase in Average Size Loan Serviced	10.8%	9.8%	10.7%

*The total servicing acquisition ratio is the increase in servicing volume divided by the total of in-house and purchased loan production

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1983, the number of loans serviced by survey respondents has increased by a little over 7 percent a year, while the dollar volume of loans serviced has risen by a bit over 16 percent per year.

The rapid rise of provision for loan losses and the amortized cost of purchased servicing per loan has changed radically the cost structure of the servicing operation during the past few years (see Chart 4). These two cost elements accounted for less than 25 percent of the total in 1983; in 1987 they accounted for nearly 40 percent of the total. By far the largest traditional component of costs, personnel expenses per loan, accounted for 40 percent of the total in 1983 and only 25 percent in 1987.

Some categories of servicing costs are largely beyond the control of the individual mortgage banker. Others, such as personnel expenses per loan, could perhaps be held down by strenuous efforts to improve productivity. Such efforts have met with little success among firms responding to the annual survey of income and expenses. For example, the number of loans serviced per loan administration employee, at 570 in 1987, was about the same as the 591 loans serviced per employee in 1979.

This measure of productivity increased in 1987 from 549 loans per employee in 1986, reflecting a faster growth in the number of loans serviced at the average reporting firm—11.8 percent in 1987 compared with 3.1 percent in 1986. Personnel expenses per loan in 1987, therefore, went up rather moderately 8½ percent, compared with the 18 percent rise in total direct servicing expenses per loan.

Analysis of data submitted in prior years has identified significant scale economies in servicing operations. Returns to scale are less likely to be the dominant influence on profitability in years when elements of expense such as loan losses and the amortized cost of purchased servicing are unusually large, as they were in 1987. Cost economies of large scale operations in servicing, however, are still clearly evident in the 1987 results.

As Chart 6 indicates, the number of loans serviced per servicing employee increases with size; firms with servicing portfolios of less than $500 million serviced 367 loans per employee; those with servicing portfolios in excess of $4 billion serviced 600 loans per employee. Total direct servicing expenditures per loan decline from $120 per loan for the smallest servicers to $96 per loan for the largest. The decline in personnel expenses per loan with increasing size is even more impressive—from $66 per loan for the smallest size group to $37 per loan for

CHART 6

1987 Servicing Income and Expenses per Loan Serviced Grouped by Dollar Volume Serviced

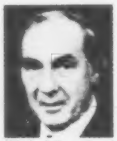
	Less than $500 Million	$500 Million to $1 Billion	$1 Billion to $4 Billion	More than $4 Billion	Average Firm
INCOME					
Servicing Fees	$192.24	$176.51	$171.94	$179.54	$177.60
1st Mortgages	190.48	174.92	168.14	175.61	173.92
Other Mortgages	1.76	1.59	3.18	3.93	3.68
Net Gain (or Loss) on Foreclosures	(9.66)	(4.34)	(2.36)	(6.13)	(5.08)
Other Loan Administration Income	25.86	27.95	23.50	22.69	23.29
Total Servicing Income	208.43	200.12	193.09	196.00	195.82
EXPENSES					
Personnel	66.08	50.38	43.87	37.46	40.84
Loan Administration Employees	55.31	41.27	35.29	31.09	33.56
Management and Directors	3.75	1.24	2.24	0.50	1.11
All Other Personnel	0.25	1.33	0.69	0.16	0.39
Fringe Benefits	6.38	6.27	5.51	5.58	5.63
Education and Training	0.38	0.27	0.13	0.14	0.15
Occupancy	7.62	7.23	6.34	4.68	5.38
Electronic Data Processing	12.99	11.86	9.58	10.07	10.14
Other Direct Expenses	33.73	41.32	37.04	43.68	41.46
Equipment Rentals, Excl. EDP	2.16	2.99	1.81	1.29	1.57
Telephone and Postage	6.17	5.48	6.20	6.87	6.57
Other Supplies	3.81	4.14	3.14	2.42	2.77
Travel, Autos, and Advertising	0.98	0.84	0.69	0.47	0.57
Legal and Auditing	1.28	1.14	1.21	0.90	1.01
Expenses to Service Foreclosures and REO	6.90	12.63	8.75	18.48	15.14
Other Direct Expenses	12.43	14.09	15.25	13.25	13.83
Total Direct Expenses	120.41	110.79	96.84	95.90	97.82
Provision for Loan Losses	3.47	41.47	17.15	9.27	13.49
Amortized Cost of Purchased Servicing	25.60	30.44	30.49	60.51	49.39
Net Servicing Income (before tax)	58.95	17.42	48.61	30.32	35.12
Memorandum Items:					
Number of Loans Serviced Per Servicing Employee	367	463	564	600	570
Average Dollar Volume of Servicing (Millions)	$ 218	$ 736	$2,027	$8,745	$2,471
Percent Growth, Dollar Volume of Servicing	16.0	12.0	16.6	26.7	22.7
Servicing Acquisition Ratio	0.314	0.364	0.639	1.534	1.044
Number of Firms Reporting	35	28	38	23	124

the largest. The largest firms evidently were well aware of the advantages that size brings, and were seeking to become still larger. Thus, the dollar volume of loans they serviced increased by more than one-fourth during 1987, and their servicing acquisition ratio—the ratio of the increase in their servicing portfolio to the dollar volume of in-house and purchased loan production—was 1.5, well above that of the smaller firms.

The evidence of scale economies in servicing operations also stands out clearly when the reporting firms are grouped by the number of loans serviced per employee (Chart 7). Firms servicing less than 400 loans per employee were comparatively small firms, with average servicing portfolios of less than $500 million. Firms with over 600 loans serviced per employee were comparatively large, with average servicing portfolios of $4.1 billion. The benefits of higher productivity influence cost figures in quite dramatic fashion. Total direct servicing expenditures per loan for the 28 firms with highest productivity are less than half the average for the companies in the lowest productivity group. And this better productivity performance does carry through to the bottom line--firms in the two highest productivity groups earned net income of over $40 per loan serviced, far above the figures for the less productive firms.

Necessarily, 1987 was a year of retrenchment for mortgage banking firms. Staffs were trimmed. Heavy sales of bulk servicing took place to generate cash flow and bolster capital positions. It was a year, also, in which mortgage bankers sought to develop new and more effective business strategies for coping with the environment in which the mortgage banking industry currently operates.

Actually, most firms in the industry entered 1988 leaner and more efficient than they were a year earlier. Fortunately, origination volume at mortgage banking companies picked up a bit early in 1988, as declining mortgage interest rates led to a recovery in new and existing home sales and to a higher proportion of fixed-rate mortgages in conventional lending. These developments are encouraging, and will help the mortgage banking industry to emerge from the deep hole into which it sank in 1987. The task of climbing out of that hole, however, will be long and arduous. **MB**



Lyle E. Gramley is chief economist and senior staff vice president at the Mortgage Bankers Association of America (MBA). Prior to MBA, Mr. Gramley was a member of the Federal Reserve Board and served on the President's Council of Economic Advisors.

CHART 7

1987 Servicing Income and Expenses per Loan Serviced Grouped by Number of Loans Serviced per Servicing Employee

	Less than 400	400 to 500	500 to 600	Greater than 600	Average Firm
INCOME					
Servicing Fees	$202.89	$211.66	$176.80	$155.76	$177.60
1st Mortgages	202.80	203.28	174.72	153.15	173.92
Other Mortgages	0.09	8.39	2.08	2.60	3.68
Net Gain (or Loss) on Foreclosures	(4.03)	(6.97)	(5.61)	(3.64)	(5.08)
Other Loan Administration Income	35.38	18.97	26.07	22.31	23.29
Total Servicing Income	234.24	223.65	197.26	174.42	195.82
EXPENSES					
Personnel	77.33	52.23	41.99	29.47	40.84
Loan Administration Employees	68.72	42.07	34.14	24.48	33.56
Management and Directors	1.51	2.40	1.20	0.23	1.11
All Other Personnel	0.15	0.40	0.37	0.42	0.39
Fringe Benefits	6.62	7.15	6.09	4.27	5.63
Education and Training	0.33	0.21	0.19	0.07	0.15
Occupancy	8.70	[illegible]	4.82	3.46	5.38
Electronic Data Processing	14.97	16.93	10.70	5.22	10.14
Other Direct Expenses	49.35	54.74	42.37	32.17	41.46
Equipment Rentals, Excl. EDP	4.32	2.32	1.32	1.06	1.57
Telephone and Postage	8.21	7.11	6.83	5.88	6.57
Other Supplies	5.11	3.30	2.51	2.43	2.77
Travel, Autos, and Advertising	1.33	0.73	0.58	0.38	0.57
Legal and Auditing	2.60	1.82	0.84	0.51	1.01
Expenses to Service Foreclosures and REO	9.11	23.78	16.41	9.69	15.14
Other Direct Expenses	18.67	15.68	13.87	12.22	13.83
Total Direct Expenses	150.35	132.77	99.88	70.32	97.82
Provision for Loan Losses	59.44	24.58	6.90	7.62	13.49
Amortized Cost of Purchased Servicing	31.09	51.29	41.63	56.47	49.39
Net Servicing Income (before tax)	(6.64)	15.01	48.85	40.01	35.12
Memorandum Items:					
Number of Loans Serviced Per Servicing Employee	314	451	588	754	570
Average Dollar Volume of Servicing (Millions)	415	2,474	3,278	4,128	2,471
Percent Growth, Dollar Volume of Servicing	5.9	19.7	20.3	29.5	22.7
Servicing Acquisition Ratio	0.138	0.796	0.936	1.818	1.044
Number of Firms Reporting	34	33	29	28	124

The boom times began in 1984, and came to an abrupt halt in early 1987. Now serious adjustments are necessary.

Overcapacity

Michael F. Cooper

Overcapacity is obviously having a significant impact on the mortgage banking industry. It's a problem that can be effectively dealt with, but to understand the solutions, a brief review of how the industry found itself in this position is necessary.

Its origin lies in the industry's expansion beginning in 1984. Fueled predominately by pent up demand (and, as yields declined further an overwhelming demand for funds to refinance existing loans) mortgage bankers and institutional lenders began growing. Further, nontraditional companies were attracted by the 28.4 percent returns on average equity produced in 1985. The attraction brought in giants such as Sears, GM, Ford, Prudential and Metropolitan. It is estimated that after-tax profits for newcomers of this size are $10 billion annually with assets of $665 billion, and employing 2.3 million people. Estimates of the total market share goal for these giants equal 45 percent. This burgeoning activity, which came to a halt in April 1987, produced overstaffing, unacceptable levels of fixed overhead, expanded branch systems incapable of producing at acceptable levels, or in other words, overcapacity.

Expense Control: With projected revenues under those of 1986 and 1987, every effort should be made to reduce and monitor fixed and variable expenses without sacrificing market share. The rationale of "If we fund 10 more loans per month in the Portland branch, everything will be okay," could cost a larger portion of future pre-tax income. The graphs depict return on equity (chart 1) and the year-to-year present change in ROE and volume (chart 2). There is little correlation between volume and ROE. Between 1981 and 1982 volume increased 15 percent and ROE increased 80 percent. Between 1984 and 1985, volume increased 25 percent and ROE dropped 20 percent. During the period covered, mortgage bankers produced the greatest ROE in 1983 (22 percent) with less than half the volume of 1986 with a ROE of less than 14 percent in a period of falling interest rates. Controlling the relationship between volume and earnings is a significant management priority in most originations today.

Expense control must begin with the development of expanded reporting capabilities into specific areas. The first is one of work measurement. Each corporate and branch function should be isolated and minimum productivity standards established. For example, minimum productivity standards should be established for loan shipping, loan underwriting, loan closing and loan processing. Once these standards have been established, monthly reports of actual performance can be measured, producing an effective method of managing the work load throughout the corporate facility as well for each individual branch.

The next area of expanded and/or developed reporting capabilities should focus on a basis point expression of the cost for each corporate or branch function in addition to each major category of non-personnel expense such as advertising, stationery, promotional materials, etc.

Utilizing work measurement reports in addition to costs by functional area or category will provide an immediate and clear understanding of the company's overall cost to originate, and provide specific information on areas of increasing expense that need to be addressed.

Looking at charts 3 and 4 during the years of 1983, 1984 and 1985, loan volumes fluctuated approximately 40 percent, from a $50 billion low to a $70 billion high. During the same years, employment grew from 85,000 to 120,000 or 41 percent, ruling out the gain generally realized from the economies of scale. Chart 4 excludes the refinance volume of 1985, 1986 and 1987 and dramatizes the industry's expansion problem: going into the peaks of a volume cycle without regard for the circumstances leading to the high origination levels.

Upgrading staff will lead to a reduction of per unit costs by increasing productivity. Just as rapid expansion produced a dilution in quality production and administrative personnel, overcapacity now provides an opportunity to improve the quality of staff.

Employee compensation based on

ILLUSTRATION BY ANNIE LUNSFORD

volume only should be readdressed to create incentives that produce a high volume of profitable and good quality originations. Unsalable, or worse, repurchased loans, will create two very visible and counter-productive results: large cash losses and a damaged reputation in the secondary market.

Current compensation programs based on pure volume should have two major modifications. These address the industry's inability to control expenses as origination volumes increase, and the substantial growth in quality control problems. The first modification could utilize an expanded capability to monitor expenses. A volume driven compensation program could be amended to allow for a deduction in total compensation income for a branch manager, a regional manager, or a head of production who has allowed expenses to grow beyond an agreed upon unit cost. Since exceptions to underwriting requirements can generally be measured (such as post-closing problems and unusually high delinquencies in segments of a servicing portfolio) the second modification to the compensation agreement could provide for a deduction in overall compensation paid due to poor quality control.

Re-evaluating guidelines established for secondary marketing/risk management may not eliminate losses; however, new guidelines will certainly limit potential losses. Too many companies have managed risk with the 20/20 vision of hindsight rather than establishing guidelines that deal with future levels of involvement and/or minimum requirements for coverage at various levels of risk.

Evaluate all costs of servicing loans. To make ends meet in 1987, a good number of mortgage bankers sold servicing. It may be worthwhile now to evaluate current per loan fees charged by subservicers. When measured against per loan costs in-house, you may find a savings in the use of a subservicer or you may establish the need to finance the purchase of additional servicing to lower unit costs.

Better utilization of today's technology to increase personnel productivity will not only reduce costs, it will increase perceived value in your customer's eyes. The mortgage banking industry has stayed well behind other financial services industries in the development and use of computer systems. Additionally, software providers have focused their attention on one specific area of the origination process and have generally not developed usable programs from the point of origination through servicing. Indeed, some excellent software systems don't even speak to each other, and multiple entries need to be made on multiple systems instead of a unified approach. Compounding this problem are existing systems, including hardware and software, currently in place with large net book values. Unfortunately, the systems and software programs may need to be written off when a company implements a complete systems change.

Overriding the previous issues is a need to provide automated assistance from point of origination through servicing. The ability to take applications in the field which can be down loaded into a processing system and updated as the loan moves from application through underwriting, funding, and ultimately into the servicing system, can increase individual productivity along the origination cycle. Increasing the capacity of each individual involved in origination through servicing may not reduce costs during times of low volume, but it will definitely expand the capability to handle a larger volume with a smaller number of people. Ad-

CHART 1

Mortgage Banking Companies' Earnings

SOURCE: MBA

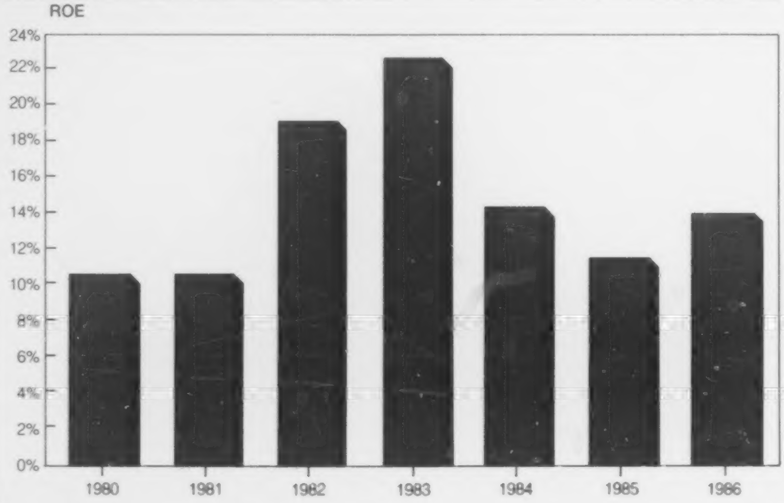
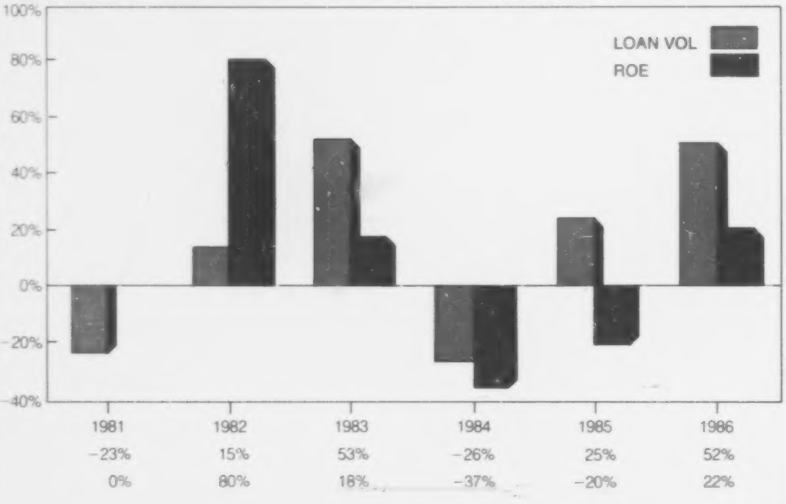


CHART 2

Annual Percent Changes Roe vs. Loan Volume

SOURCE: HUD/MBA



vanced systems and software can definitely assist the industry in moving away from the cycle of expanding overhead as volume increased and frantically scrambling to reduce costs as volume drops. Timely processing of the entire transaction in today's environment of predominately equal products will be the major method of expanding market share in the future.

Year-to-year percentage change in volume and employment are reflected in charts 5 and 6. Once again, growth without regard to operating environment can be seen in most years with or without refinance volume. Between 1983 and 1984 total volume dropped 26 percent and total employment increased 29 percent over the previous year. In 1987, the same attitude is reflected with a 20 percent drop in volume and a 13 percent increase in total mortgage banking staff. Establishing procedures and methods to expand each individual's ability to increase productivity can contribute to the establishment of acceptable relationships between people and volume.

Revisiting 1988's business plan to include strict guidelines for dealing with excessive fixed expenses will assist in the overall cost reduction process. Plans that set in motion predetermined steps to deal with excessive unit costs should be part of future strategic planning.

CHART 3

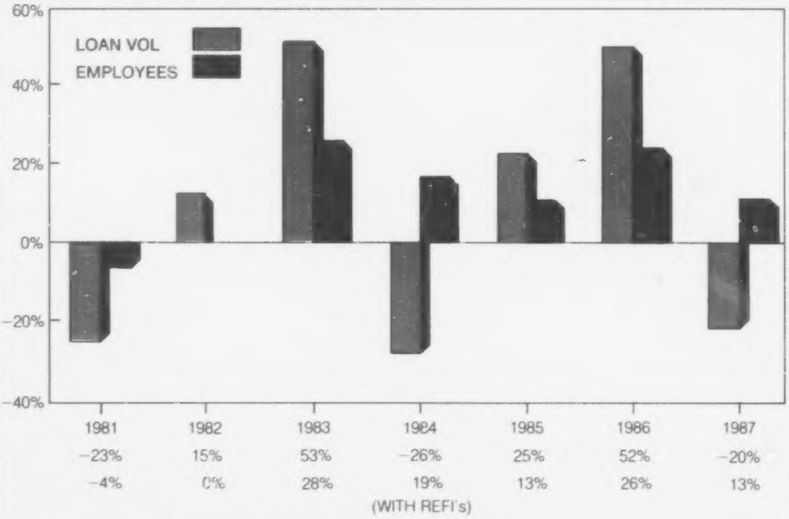
Mortgage Banking Employment vs. Loan Volume

SOURCE: HUD/MBA

CHART 4

Annual Percent Changes, Employment vs. Loan Volume

SOURCE: HUD/MBA



Considering the interest rate volatility that has become a normal part of mortgage banking over the past several years, traditional methods of business planning and financial projecting may not make good business sense for the industry today. The annual establishment of acceptable unit costs could be combined on a quarterly basis with projected volume which would produce a more appropriate management tool for identifying weaknesses in the origination system and produce a more meaningful method of matching overall costs with overall projected income.

Marketing: In some areas of the country, the general reduction of total transactions has been further complicated by portfolio lenders. Portfolio lenders have increased market share by reducing initial yields ½ percent below secondary market requirements. This situation hasn't changed since mid-1987 and will probably continue until we see a further decline in yields for fixed-rate loans. Some mortgage bankers have entered into correspondent relationships with portfolio lenders who provide competitive teaser rates to the branch system which has enabled mortgage bankers to maintain fee income as well as an origination staff. With or without retaining the right to service, the correspondent relationships allow the mortgage banker to maintain control of the transaction from point of origination through funding, unlike brokered relationships that require the underwriting and funding process to take place at the source of funds.

Refocusing the entire origination staff will lead to a larger market share. The origination staff must let go of the hope for a resumption of the refinance business and focus their attention on the 20 percent of the real estate agents that do 80 percent of the transactions. Nontraditional sources of referrals must be identified and marketing strategies need to be developed to reach people such as CPAs, financial planners, business and civic groups, local company relocation staff, financial institutions not providing government financing, for sale by owners, and builders. Regional as well as senior production management must reinvolve themselves in the day-to-day search for a larger market share. A loan officer calling on a builder's subdivision may receive a warm welcome but no new loans, until a senior person has established a direct relationship between the lender and the builder at the developer's home office.

The marketing strategy necessary to offset the effect of Sears, GM, Ford and the other giants who have entered the industry is quite simple: Provide a higher level of local service responding to the complete need of the local customer.

Prior to 1990, the survivors in mortgage banking will have evaluated their marketing strengths by analyzing each individual branch, looking for the circumstances that surround success or failure. The pattern that develops will usually be created by the people involved and the success of the various products to fill specific market needs. Once a blueprint for success is established, measure all production facilities against this plan. Any weak areas can then easily be addressed and solutions to the problems implemented. The exception to the rule will be the marketing area which does not conform to the established blueprint. Considering the current levels of competition, a change in management, procedures, or the origination staff will most likely not produce a positive effect in a marketing area not suited to your predominant products and services. Closing the office and reinvesting in an area that meets your blueprint specification could be the only solution.

Once you have focused on what you do best and what markets will accept your products and services, maintaining your reputation in a specific market area will require constant attention. Specific needs are constantly changing within any market and you must be prepared to adapt products and services to meet that dominant market's needs. If you take a broad brush approach, the only increase you will have will be the same as everyone else.

Becoming the best local provider of specific services and products will be the key to success in the 1990s. To provide good products and services you must understand your market. In the latter part of 1987, loan agents were complaining about the thrifts' ARM products when in reality Chart 7 indicates that banks increased market share 4 percent while the thrifts stayed even.

Even with the decline in FHA loan volume indicated in chart 8, total fixed- rate volume for 1987 equaled $260 billion (Chart 9—fixed plus Chart 8—government) exceeding all prior years with the exception of 1986. And so, the obvious failure of the mortgage banking industry to monitor the composition of basic volumes by product type allowed a 5 percent loss of market share to the banks.

Training: Effective training programs for all levels of administrative and production employees will lead to increased efficiency and a greater perceived value on the part of your customers.

Over the past few years, the skills of the production staff with respect to basic salesmanship have been dulled by the factors that led to overcapacity. For the sales people that entered the industry in 1985, their view of mortgage banking includes a 40-60 percent refinance customer base. Branch, regional and corporate production management's responsibility in the future will consist of the development of ongoing training programs that refocus or focus (depending on length of employment) the origination staff on sound methods of establishing strong relationships with individuals who can refer business. Training must be developed for the origination staff as they extend into less traditional areas of seeking customer referrals, or in

CHART 5

Annual Percent Changes Employment vs. Loan Volume

SOURCE: HUD/MBA

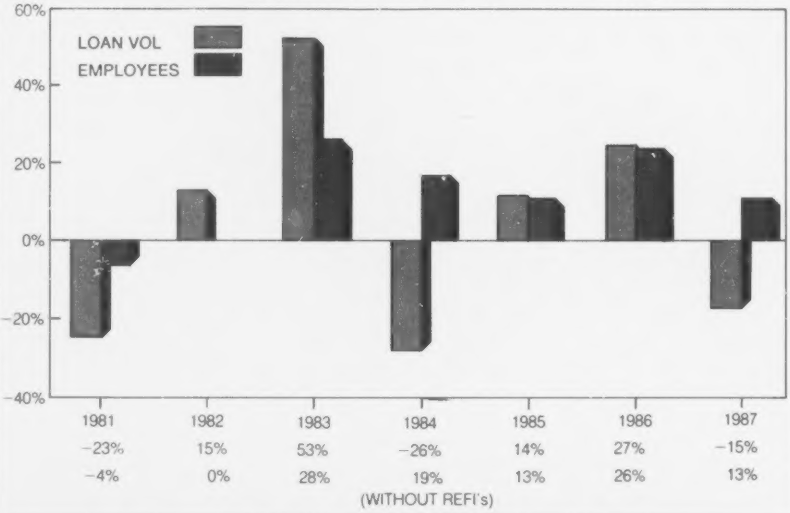


CHART 6

Mortgage Banking Employment vs. Loan Volume

SOURCE: HUD/MBA

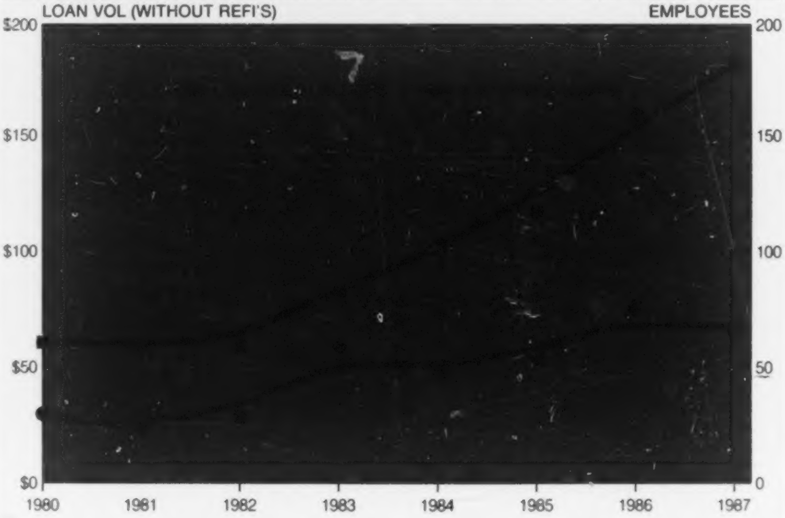


CHART 7

The Market Place

SOURCE: HUD

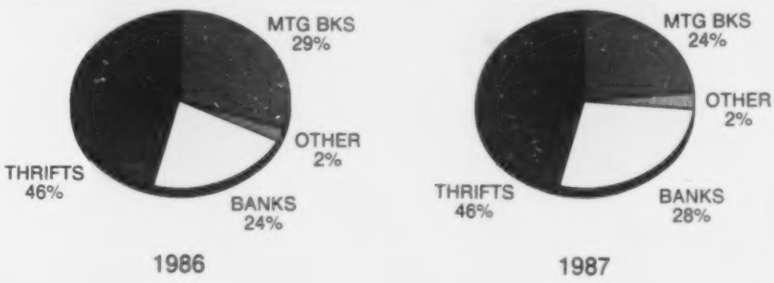


CHART 8

Total Loan Originations

SOURCE: HUD/MBA

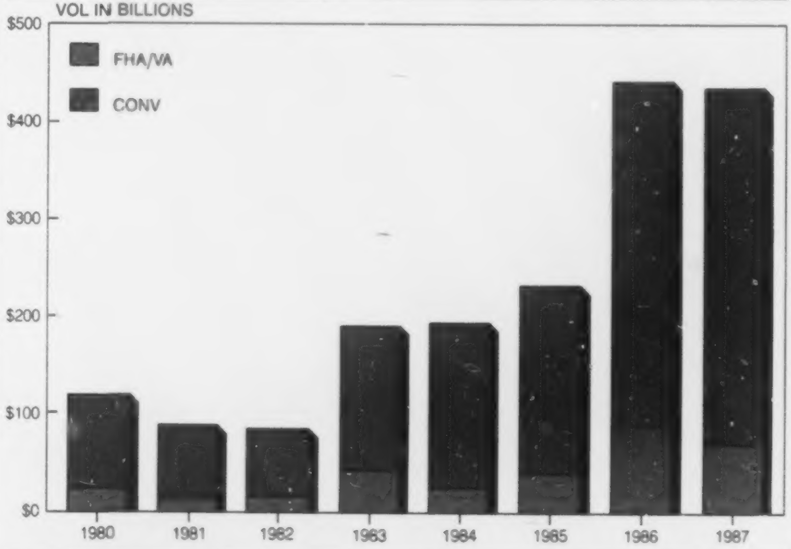
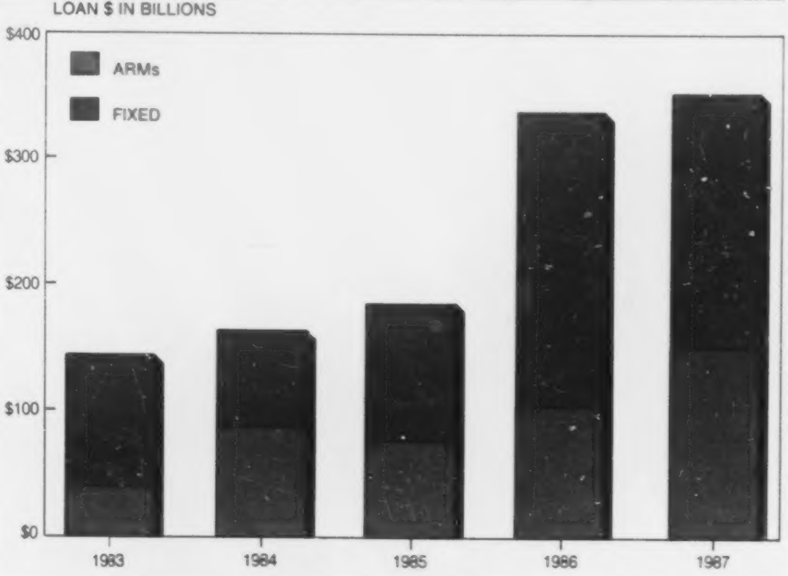


CHART 9

ARMs vs. Total Conventional

SOURCE: HUD/MBA



some cases, direct solicitation. *Sales training from outside sources generally results in short-term increases in productivity if the techniques learned are not incorporated into ongoing training programs.*

The first training program for the administrative staff should address customer service and its impact on perceived value. Just as the loan officers have lost the sharp edge on their sales skills, the administrative staff has relaxed their focus on customer service. Throughout 1986 and until April 1987, it became common practice for the administrative staff to say, "It is just another refinance; I'll deal with it later." The continuance of this mindset will result in a low perceived value on the part of existing customers, and has the potential to undo new relationships established by the sales staff.

The cross-training of administrative staff has historically been the focus of a great deal of conversation and has fallen away with respect to execution in times of high volume. A well executed cross training program will enhance the level of service provided to the consuming public, assist in the reduction of per unit costs, and reduce turnover.

Selective use of outside training programs and seminars will enhance the overall level of knowledge within key areas of the administrative staff. As an example, avoiding a Freddie Mac seminar on underwriting due to costs may result in the inability to sell a percentage of your future production to the agency.

For the near term at least, survival or prosperity for many mortgage executives may well depend upon their ability to effectively manage the change that must take place to cope with overcapacity. Present business plans need to be revised so that executives have the wherewithal to effectively monitor, evaluate and control costs and employee performance. The plan should provide for flexibility so that adjustments can be easily made to capitalize with or cope with changing markets. Finally, initiatives must be undertaken to insure employee productivity and a compensation program suited for our times. **MB**

Michael F. Cooper is an associate with MCS Associates, Management Consultants, Inc., Newport Beach, California.

With modest rates of appreciation, most homeowners can anticipate a good to excellent return on investment over the years.

THE INVESTMENT RETURNS TO HOMEOWNERSHIP

Richard W. Peach

Roughly two of every three households in this country own the home they live in, and that proportion rises with household income and wealth. Surveys consistently indicate that Americans place homeownership at or near the top of the list of personal priorities. The reasons for this strong preference for owning rather than renting are many. Included among them is the fact that homeownership is regarded as a good investment. Indeed, most households have the bulk of their wealth invested in their home.

It is possible to quantify the expected investment performance of a typical owner-occupied home purchased today, so that the return to homeownership can be compared with returns on other assets, such as stocks or bonds. To do so, a model used to evaluate internal rates of return for income properties was adapted to reflect the tax treatment of homeownership.

For illustrative purposes, the purchase of a $100,000 home at current mortgage interest rates is evaluated, employing realistic assumptions regarding the purchase, operation, and eventual sale of such a property. Table 1 shows estimates of after-tax rates of return on such a purchase with alternative assumptions about the size of the down payment, the rate of home price appreciation, and how long the house is owned. The expected return on the equity in a house is very competitive with rates of return on other assets. For example, if the home appreciates 4 percent per year and is held for 8 years, the annualized after-tax return on equity is about 10 percent, the equivalent of a 12½ percent taxable yield.

The expected return on the equity in a house is very competitive with rates of return on other assets.

Several key underlying assumptions and major findings of this analysis should be specifically addressed.

Rate of Price Appreciation—Given the assumed rate of interest, the rate of price appreciation over the holding period is the key determinant of the return on equity as the capital gain is the major form of return on the investment.

As shown in Table 2, rates of home price appreciation have been lower in recent years than they were earlier—except in the Northeast. A long-run appreciation rate of 4 to 6 percent is probably a realistic assumption, unless a major resurgence of inflation occurs. If that happened, rates on home price appreciation would be higher, but nominal mortgage interest rates would probably also be higher.

Imputed Rental Income—The data in Table 1 include implicit as well as explicit returns to a homeowner. While a homeowner living in his own home does not receive an explicit flow of gross rental income from the property, implicitly he or she receives a flow of income identical to what would be received if the property were rented to someone else. Alternatively viewed, a homeowner avoids the rental payments that would be entailed in living in rental housing. Annual rents, net of utilities, for median priced homes range from about 8 percent to 12 percent of the property value. The exact percentage for a given market area tends to vary inversely with rates of property appreciation. That is, in markets where property values are appreciating rapidly, rents tend to be relatively low as a percent of the property value as investors take a larger portion of their return in the form of capital gain rather than current income. In the analysis underlying the data in Table 1, we have assumed the relationship

TABLE 1

Annualized After-Tax Return on Homeowners Equity

Annual Rate of Appreciation	20 Percent Down payment[a] Holding Period (years) 4	8	12
2%	−0.5%	6.4%	8.7%
4%	5.4%	10.1%	11.0%
6%	10.6%	13.4%	13.3%
8%	15.2%	16.3%	15.4%
	10 Percent Down payment[b] 4	8	12
2%	−8.6%	4.4%	8.1%
4%	2.3%	10.1%	11.3%
6%	10.6%	14.4%	14.1%
8%	17.4%	18.2%	16.6%

[a] Based on the following assumptions: $100,000 home purchased with an $80,000, 30-year, fixed-rate mortgage with a contract rate of 10 percent plus 2½ points paid in cash. The effective yield assuming a 10 year life is 10.61 percent. Other closing costs equal 0.5 percent of the purchase price, with total equity invested at $22,500. The homebuyer is assumed to have an adjusted gross income of $30,000 and to file a joint tax return with four exemptions. Non-housing itemized deductions are the average for taxpayers at this AGI level. Imputed gross annual rental income as a percent of initial property value, net of utilities, varies with appreciation rate as follows: appreciation rate 2 percent, imputed rental income 9.5 percent; appreciation rate 4 percent, imputed rental income 9.0 percent; appreciation rate 6 percent, imputed rental income 8.5 percent; and appreciation rate 8 percent, imputed rental income 8.0 percent. Annual operating expenses as a percent of initial value are as follows: property taxes, 1.25 percent; property insurance, 0.25 percent; maintenance, 1.5 percent; utilities, 1.5 percent. The underlying inflation rate for income and operating expenses is 4 percent. Expenses of sale are 7 percent of gross sales price.

[b] Same as [a] except that loan amount is $90,000, invested equity is $12,750, adjusted gross income is $34,600 and ¼ percentage point is added to the contract rate of the loan to cover private mortgage insurance.

TABLE 2

Average Annual Rates of Home Price Appreciation

	United States	Northeast	Midwest	South	West
Past 5 Years	4.8%	16.0%	3.7%	3.7%	2.7%
Past 10 Years	7.2%	11.6%	6.0%	7.3%	7.0%
Past 15 Years	8.1%	10.5%	7.0%	7.7%	9.7%

between imputed rental income and property appreciation rates as illustrated in Table 3.

It should also be noted that rents as a percent of property value also tend to decline as one moves above the median home price range. This is due to the fact that demand for rental homes tends to weaken as the price of the home increases.

Holding Period—If sold after one or two years, the rate of return on a home is typically negative since capital gains are insufficient to recoup the upfront costs of the purchase and cover the net operating loss. As the holding period lengthens, the cumulative capital gain surpasses those upfront costs and net operating income increases, causing the rate of return to increase. Eventually, the rate of return will peak and then taper off as equity in the property increases and so leverage decreases. Ultimately, when the loan is fully paid off, the marginal rate of return is the rate of appreciation. How soon the rate of return peaks depends on the rate of appreciation; the faster the appreciation rate the earlier the peak rate of return is achieved. In the case of a 4 percent rate of appreciation, a 10 percent rate of return is achieved in 8 years, but 12 years is required to achieve the peak rate of return of 11 percent. With an 8 percent rate of appreciation the peak is reached in 8 years. As a general rule, when mortgage rates are around 10 percent, rates of price appreciation must be about 5 percent or somewhat higher to make the purchase of a house attractive when the expected holding period is less than about 5 years. Otherwise, an individual may do better by investing the equity in a bond and renting.

TABLE 3

Annual Property Appreciation Rate	2%	4%	6%	8%
Annual Imputed Rental Income, Net of Utilities	9.5%	9.0%	8.5%	8.0%

Tax Treatment—The data in Table 1 assume that the taxpayer faces a 15 percent marginal federal income tax rate and a 5 percent marginal state income tax rate. Homebuyers with sufficient income to be boosted into the 28 or 33 percent marginal federal rates would realize higher rates of return since the relative value of mortgage interest and property tax deductions is greater. Table 1 also assumes that all capital gains are rolled over into another home of equal or higher value and so are not taxed. If capital gains were fully taxed, yield would be reduced about 15 percent when the appreciation rate is 4 percent and about 25 percent when the appreciation rate is 8 percent.

Financing Costs—Obviously, the cost of financing is also a major determinant of yield. The results in Table 1 are based upon a 10 percent contract rate with 2½ points paid in cash. Given rates of home price appreciation, a 1 percentage point higher mortgage interest rate would reduce yield about 30 percent for a 4-year holding period, about 18 percent for an 8-year holding period, and about 13 percent for a 12-year holding period. A 1 percentage point lower mortgage interest rate boosts yields by equal percentages. Not paying points but accepting a higher contract rate, so that the yield to the lender is essentially equal, reduces the peak yield modestly but increases the yield for relatively short holding periods.

This analysis confirms that with relatively modest rates of appreciation homeownership provides very attractive investment returns, which in turn helps explain why people are so eager to become homeowners. But it is also important not to overlook the fact that the returns of homeownership to the individual and to society go well beyond those that can be quantified. **MB**

Richard Peach is deputy chief economist at the Mortgage Bankers Association.

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1988												
FEB	90	68	22	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	129	105	24	1,529	1,229	300	140	107	33	1,476	1,110	366
APR	154	112	42	1,584	1,151	433	138	101	37	1,449	1,035	414
MAY	140	109	31	1,393	1,056	337	138	106	32	1,436	1,058	378
JUN	149	119	30	1,454	1,149	305	154	114	40	1,493	1,081	412
JUL$_p$	**138**	**106**	**32**	**1,489**	**1,127**	**362**	**121**	**93**	**28**	**1,413**	**1,065**	**348**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,770	1,186	584			
7 MONTHS												
1988	878	678	200				854	643	211			
1987	982	742	240				950	698	252			
1986	1,108	772	336				1,070	722	348			
1985	1,016	697	319				1,001	643	358			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1988																
FEB	12	11	42	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	18	53	36	290	262	572	405	26	24	54	37	306	276	525	369
APR	25	32	59	37	265	345	595	379	25	28	48	38	265	272	512	400
MAY	20	30	54	36	200	269	562	362	23	29	49	36	236	274	538	388
JUN	26	32	53	38	240	254	570	380	26	30	57	41	247	282	574	390
JUL$_p$	**25**	**29**	**50**	**35**	**262**	**296**	**563**	**368**	**20**	**24**	**43**	**33**	**222**	**258**	**542**	**391**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	387	510				
7 MONTHS																
1988	144	159	343	231					144	155	324	232				
1987	157	176	384	264					164	171	359	255				
1986	164	173	470	302					164	167	436	304				
1985	133	133	470	280					146	131	444	281				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
	Sold	Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1988														
FEB	220	55	363	6.8	228.5	115.4	22.6	90.5	983	636	347	100	73	27
MAR	303	68	366	6.8	232.9	117.6	21.6	93.7	999	658	341	121	86	35
APR	322	68	362	6.6	232.9	117.4	21.0	94.5	999	661	338	125	86	39
MAY	344	64	367	6.7	234.3	116.2	21.4	96.7	984	647	337	115	88	27
JUN	379	65	365	6.2	231.2	115.1	21.4	94.7	984	651	333	132	100	32
JUL$_p$	**328**	**55**	**366**	**6.6**	**230.4**	**114.4**	**21.8**	**94.2**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
7 MONTHS														
1988	2,087	418										n.a.	n.a.	n.a.
1987	2,152	432										935	649	286
1986	2,048	487										951	642	309
1985	1,833	416										935	632	303

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
NOV	$ 43,840	$ 5,678	$ 13,708	$ 20,928	$ 3,526	$ 26,482	$ 5,450	$ 11,378	$ 9,432	$ 222
DEC	52,632	6,794	16,617	24,833	4,388	29,464	6,582	12,238	10,530	114
1988										
JAN	36,953	5,919	10,683	18,765	1,586	21,139	5,742	8,327	7,038	32
FEB	35,487	5,886	10,924	17,021	1,656	20,634	5,440	8,507	6,626	61
MAR	42,582	6,878	14,394	19,386	1,924	26,343	6,638	11,575	7,984	146
APR$_p$	**44,028**	**7,000**	**15,228**	**19,972**	**1,828**	**28,022**	**6,702**	**12,668**	**8,547**	**105**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
4 MONTHS										
1988	159,051	25,683	51,229	75,145	6,994	96,139	24,522	41,077	30,196	344
1987	214,346	49,620	65,389	90,588	8,749	156,988	47,186	54,435	53,980	1,387
1986	135,622	30,266	49,722	47,492	8,142	94,347	28,071	38,765	26,622	889
1985	93,117	17,641	38,764	30,427	6,285	61,067	16,221	28,405	16,192	249

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

	5+ UNITS					NONRESIDENTIAL				
YEAR AND MONTH	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
NOV	$ 2,542	$ 151	$ 1,022	$ 983	$ 386	$ 14,609	$ 77	$ 1,308	$ 10,306	$ 2,918
DEC	3,371	97	1,986	969	319	19,797	115	2,393	13,334	3,955
1988										
JAN	2,122	160	1,171	710	81	13,692	17	1,185	11,017	1,473
FEB	2,020	385	990	421	224	12,833	61	1,427	9,974	1,371
MAR	2,387	157	1,349	658	223	13,852	83	1,470	10,744	1,555
APR$_p$	**2,324**	**270**	**1,233**	**656**	**165**	**13,682**	**28**	**1,327**	**10,769**	**1,558**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
4 MONTHS										
1988	8,853	972	4,743	2,445	693	54,059	189	5,409	42,504	5,957
1987	12,160	882	5,320	5,111	847	45,198	1,552	5,634	31,497	6,515
1986	9,073	1,113	4,879	2,112	969	32,202	1,082	6,078	18,758	6,284
1985	7,026	758	3,999	1,712	557	25,024	662	6,360	12,523	5,479

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

	ISSUED DURING MONTH					OUTSTANDING				
YEAR AND MONTH	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
NOV	$ 29,450	$ 4,604	$ 15,454	$ 6,636	$ 2,756	$126,075	$12,484	$47,784	$49,673	$16,134
DEC	26,649	2,907	15,561	6,170	2,011	111,370	6,711	44,927	46,613	13,119
1988										
JAN	28,343	7,271	13,929	5,618	1,525	106,598	8,111	41,990	43,325	13,172
FEB	27,456	4,490	13,525	6,598	2,843	110,839	9,147	43,049	44,404	14,239
MAR	37,497	3,969	18,742	10,858	3,928	117,502	7,453	45,589	48,532	15,928
APR$_p$	**36,479**	**3,569**	**19,895**	**9,421**	**3,594**	**126,301**	**7,972**	**47,067**	**54,091**	**17,171**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
4 MONTHS										
1988	129,718	19,299	66,091	32,495	11,833					
1987	167,313	41,310	78,289	37,023	10,691					
1986	148,517	43,030	66,430	25,611	13,446					
1985	91,326	14,018	48,881	18,801	9,626					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
YEAR AND MONTH	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1988												
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR	165	93	14	58	88	6,591	42	2,508	14	1,039	32	3,044
MAY	170	91	18	61	113	8,222	59	3,545	16	1,164	38	3,513
JUN	168	85	20	63	111	8,466	50	3,006	16	1,209	45	4,251
JUL$_p$	**147**	**74**	**18**	**55**	**130**	**9,565**	**72**	**4,383**	**17**	**1,287**	**41**	**3,895**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
7 MONTHS												
1988	964	537	102	325	643	47,123	328	19,720	102	7,583	213	19,820
1987	1,657	908	290	459	1,476	102,609	862	53,575	307	22,430	307	26,604
1986	1,251	475	240	536	919	63,169	446	27,508	162	11,549	311	24,112
1985	960	215	126	619	711	46,206	198	11,376	93	6,293	420	28,537

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Applications	Issued
1988										
FEB	$ 2,516	$ 2,629	$142,797	$ 3,190	$ 1,869	$ 4,911	$ 3,293	$ 2,414	$ 3,694	$ 3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR	2,555	2,409	149,569	5,444	2,968	6,437	2,772	2,266	4,820	3,315
MAY	2,142	2,138	152,826	4,600	3,552	5,159	2,876	2,325	6,288	4,168
JUN	2,179	2,372	157.438	6,220	4,288	6,447	4,117	3,649	n.a.	n.a.
JUL$_p$	**1,108**	**1,960**	**160,636**	**4,895**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	25.415	20,531	—	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
7 MONTHS										
1988	14,323	14,284	—	27,701	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1987	13,717	10,853	—	42,254	52,841	57,466	58,194	57,085	83,414	67,400
1986	19,441	13,709	—	29,465	54,004	57,159	47,797	45,694	72,846	46,539
1985	12,002	12,798	—	9,726	24,834	27,611	23,200	21,403	33,225	21,748

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY			FHLBB SURVEY		FNMA	
	FHA	CONVENTIONAL		CONVENTIONAL		1 Yr. ARM	FRM
	New[4]	New	Existing	New	Existing	(1%/Yr.)	Conv.
1987							
FEB	9.86%	9.80%	9.81%	9.12%	9.16%	8.62%	9.64%
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.74
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.04
MAY	10.84	10.48	10.49	8.95	9.19	9.24	10.28
JUN	10.65	10.35	10.37	9.26	9.28	9.45	10.22
JUL	10.66	10.47	10.47	9.17	9.29	9.67	10.24
AUG$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**10.04**	**10.43**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
					U.S. Government		
	GNMA[6]	FNMA[6]	FHLMC[5]	A-Rated[7] Utility	10-yr.	26-wk.	Prime Comm. Paper 90-119 Days
1988							
FEB	9.29%	9.27%	9.23%	9.75%	8.21%	5.93%	6.58%
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	9.72	9.62	9.59	10.23	8.72	6.21	6.86
MAY	10.01	10.56	10.25	10.61	9.09	6.53	7.19
JUN	9.97	10.10	10.06	10.41	8.92	6.76	7.49
JUL	9.96	10.35	10.30	10.40	9.06	6.99	7.82
AUG	**10.11**	**10.44**	**10.90**	**10.45**	**9.26**	**7.39**	**8.26**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	23	92	147	116
JUN	24	105	118	114
JUL	26	90	129	124
AUG	**n.a.**	**85**	**118**	**164**

NA—Not available. p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks

[3] FHA applications received includes the Direct Endorsement Program starting in 1984

[4] Secondary market gross yields

[5] Federal Home Loan Mortgage Corp. Existing Construction only

[6] Securities for 0 to 30 day delivery

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds

[8] Year-to-date seasonally adjusted series not calculated

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity